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CLUB FINANCE

CHARACTERISTICS OF IN-HOUSE M&A DIVISIONS AND THEIR ABILITY TO CREATE VALUE

LES ÉTUDES DU CLUB

N° 91

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une école de la Chambre de commerce et d'industrie de Paris

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une école de la Chambre de commerce et d'industrie de Paris

CHARACTERISTICS OF IN-HOUSE M&A DIVISIONS AND THEIR ABILITY TO CREATE VALUE

An empirical study

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Master Thesis – Master of Science in Finance

Class of 2011

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Under the supervision of Prof. Ulrich HEGE

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Abstract

The study investigates the characteristics of in-house M&A divisions and their ability to create value. For this purpose, we followed a threefold approach consisting of an online-survey, expert interviews and the analysis of further empirical data. We find that internal advisory units are well organised to fully substitute external advisers, especially in smaller deals, not only due to their diverse competencies but also due to their large fraction of senior employees who often used to work in several different industries. Main reasons for the foundation of Corporate Development departments include better industry knowledge and more company-specific M&A expertise. Also, we demonstrate that project management, a coordinative and monitoring task in transactions, is the main responsibility of Corporate Development departments when collaborating with external M&A advisers. Their involvement is mainly due to high resource flexibility, a superior network and outside perspective. We do not find a significant difference in acquirers' CARs with regard to transaction announcements before and after the implementation of in-house M&A divisions, suggesting that the overall M&A advisory market is efficient.

KEY WORDS ：

IN-HOUSE M&A ADVISORY, CORPORATE DEVELOPMENT, EXTERNAL ADVISERS, INVESTMENT BANKS, MERGERS AND ACQUISITIONS.

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I. Introduction

1. Explanation of the research question

"Effectively executing Strategic Transactions requires some special skills and expertise. Companies that make regular use of Strategic Transactions as a tool for growth generally seek to develop an in-house expertise in the form of a Corporate Development team."

(Frankel, 2005, p. 28)

Since the beginning of the second half of the twentieth century, the global volume of M&A transactions has been rising cyclically (Vernimmen & Quiry, 2009, p. 895). It increased from about 0.2 tn USD in 1980 to about 2.7 tn USD in 2010 (McKinsey & Company, 2010).

Figure 1: Global M&A deal volume

An M&A transaction is a complex process, which involves several phases and usually lasts an extended period of time (Paulson & Court, 2001, p. 15). During that phase, both the acquirer and the target are advised by a number of external parties, most notably financial, legal, strategic and technical advisers (Gaughan, 2007, p. 15). While advisory work concerning M&A had been a relatively new Investment Banking product decades ago, it has become more and more mature and recently the M&A advisory market has been facing increasing competition (Morrison & Wilhelm, 2007, pp. 255, 264).

At the same time, serial acquirers have been able to increase their in-house knowledge about transaction processes, thereby reducing the need for external advice. Influenced by various underlying reasons[1], these companies started designing and establishing own in-house M&A divisions, commonly also referred to as Corporate Development departments[2], which focus on company growth through acquisitions (Buckley & Ghauri, 2002, p. 240). Those departments are sometimes also in charge of other activities, e.g. the strategic placement of new products or the implementation of partner networks. However, throughout this paper, we define them as company units which are mainly concerned with identifying, acquiring or divesting entire firms, businesses and / or assets. Despite their distinct focus, little is known about them in academics. Predominantly, their characteristic features are not disclosed to the public.

2. Motivation and objective of the study

During several conversations with academics, professionals and colleagues as well as after intense search for existing literature, we noticed that there indeed is a strong need for fundamental research in this field. To our best knowledge, there has been no comparable empirical study on the characteristics and value creation potential of in-house M&A divisions. The strong interest and positive feedback of many survey participants and interviewees confirmed our motivation to follow the research objective.

The purpose of this paper is to analyse distinctive features of internal advisory units and to demonstrate how they influence the transaction process. Besides that, we try to examine their decisiveness for deal quality, i.e. how in-house M&A divisions can contribute to achieving better

[1] For an outline and analysis of these reasons see chapter II of this paper.
[2] In this paper, the terms "in-house M&A division", "internal advisory unit" and "Corporate Development department" are used interchangeably.

cumulative abnormal returns (CARs) for the acquirer after transaction announcements. Historically, this is especially interesting given the relatively low number of successful M&A transactions (Coley & Reinton, 1988). Our threefold approach to answering these questions includes the evaluation of an empirical study on the status quo of in-house M&A divisions in *MSCI World*[3] and *ARFA*[4] companies, interviews with experts on Corporate Development, as well as an event study, testing potential differences in perceived deal quality before and after the implementation of in-house M&A divisions.

3. Existing theories and literature on in-house M&A divisions

Although almost all papers discussing M&A advisory focus on Investment Banks, we find several articles which can be referred to in the context of in-house M&A divisions. For instance, Servaes & Zenner (1996) conducted research on large acquisitions executed by external advisers and in-house M&A divisions from 1981 to 1992. According to their findings, deal complexity is a main driver to engage an external adviser. More specifically, they outline that companies hire Investment Banks when "the acquisition is more complex, when they have less prior acquisition experience, and when the acquisition involves the takeover of another company". By computing CARs for the *(-1, 0)* AR window[5], they find that internally advised transactions have higher announcement returns than transactions advised by Investment Banks; the difference is significant at the 7% level. In a recent paper, Yu (2010) argues that the acquirer's loss (in terms of announcement returns) is smaller, when an in-house M&A division is employed. The paper outlines a positive impact of internal advisory services on the acquirers announcement return which is, however, not significant. In

[3] *MSCI Barra*, constituents weights for the *MSCI* World Index as of September 30, 2010. "The *MSCI* data contained herein is the property of *MSCI* Inc. (*MSCI*). *MSCI*, its affiliates and any other party involved in, or related to, making or compiling any *MSCI* data, make no warranties with respect to any such data. The *MSCI* data contained herein is used under license and may not be further used, distributed or disseminated without the express written consent of *MSCI*."
[4] See also http://www.arfa.asso.fr/ for further information.
[5] See also chapter IV for further information on the nomenclature.

contrast, Ismail (2009) finds that transactions guided by in-house M&A divisions result in the largest loss. He attributes this however to very large deals which faced considerable losses.

The reasons and causes of agency conflicts inherent in the relationship between external advisers and their clients are explored by Kosnik & Shapiro (1997). They conclude that there are four methods for conflict reduction: developing in-house expertise, extending the relationship between corporate client and external adviser beyond single transactions, putting pressure on the adviser's reputation by publishing information about its performance, and negotiating fee structures that lead to the client's long-term success. Davidson & Tong (2007) do not focus on acquirer but target in-house M&A divisions and their ability to assess the company's own value, compare different bids and increase the number of bids.

Most papers define a deal as executed by an in-house M&A division when no external adviser is stated by the accessed transaction databases. There are two problems arising from this prevailing approach. First, it might be that the databases simply lack information about external advisers and that there in fact had been an advising Investment Bank.[6] Second, it might also be that there was no Corporate Development department being fully in charge of the respective transaction. Alternatively, the analysed deals could have been completed by employees working in an operating division[7] with appropriate educational or professional backgrounds. With our survey, we unambiguously identified companies which operate clearly marked Corporate Development departments.

4. Structural approach and method

After outlining the research question, motivation and objective as well as the procedural method of our paper in the first chapter, we focus on the empirical study on the *MSCI World* and *ARFA* sample in the second chapter.

[6] This concern is also expressed by Rau & Rodgers (2002, p. 6).
[7] Most of the time, the targets are finally integrated in operating divisions.

In the sample selection and methodology section, we describe how data were generated and what specific data had been collected. We also explore the underlying reasons and assumptions applied when designing both the overall survey as well as distinct questions. Most importantly, we display, analyse and further interpret the obtained empirical results and provide the reader with connections to existing theories.

In the third chapter, we summarize key aspects concerning the set-up of and processes in Corporate Development departments, which are complementary to the survey. The information was obtained by conducting expert interviews with four senior professionals; all of them are in-house practitioners and provided evidence about specific situations in the respective companies.

Subsequently, we introduce a study extension performed on the collected data of the original survey in the fourth chapter. For this purpose, we enriched our initial data basis with information about M&A transactions extracted from several databases. Among other analyses, we examine the excess value creation potential of Corporate Development departments by conducting an event study on announcement returns. Finally, we summarize the most important implications of our findings and make specific recommendations for further research in the conclusion of this paper.

II. Empirical research study

1. Methodology

a) Data generation process

In order to receive detailed insights into existing in-house M&A divisions, an online survey was designed and launched.[8] We decided to take the highly diversified *MSCI World Index*, which consists of 1,500 companies, into consideration as a survey population in order to avoid a bias towards a certain industry or country.[9] We researched the person most likely to be in charge of in-house M&A divisions for each of the population companies, such as the Chief Officer for Corporate Development and / or M&A. Whenever we were not able to identify that person, we assumed the Chief Financial Officer to have ultimate responsibility for such a division, if existent, or corporate transactions in general. Additionally, the main contact people for external requests, which were often located within the Investor Relations or Media / Press departments, were taken into account.

Most of the companies' senior professionals in charge of M&A advisory and / or Corporate Development could be addressed directly. As every company contact received an individual survey link, we could control for multiple survey completion.[10] The survey was closed three weeks after the launching date. Prior to that, we increased our return through a reminder e-mail that was sent to potential respondents who had not yet replied after seven business days. We eventually received a total of 223 answers, which corresponds to a response rate of 15 %. As the survey program recorded every response independent from its quality or completion progress (i.e. it used a binary function whether the survey was started or not), each of the

[8] See also appendix for a paper version of the whole survey including all questions. For this purpose, the scientific survey software *Qualtrics*™ was used for the design, distribution and evaluation of the online survey.
[9] However, the *MSCI World Index* focuses on developed markets only.
[10] There have been four cases of multiple survey completion, which most likely occurred by chance. Multiple completion answers were carefully excluded from the survey results according to the assessment of the authors.

223 responses was reviewed individually. We excluded all responses without a check of the very first and crucial question on whether the company currently has a Corporate Development department or not. This resulted in 146 utilisable responses or a response rate of almost 10 %.[11]

As we also intended to get an insight into the local situation within France, we launched the survey a second time, now targeted at the members of the *Association Française des Responsables de Fusions-Acquisitions* (*ARFA*). For this survey, we received 16 utilisable answers, which corresponds to a response rate of 25 %.

b) Data researched

Upon our research question framework, we constructed a total number of 24 questions (with the ultimate number of questions displayed for each respondent depending on the pursuit of different survey loops) aimed at revealing the data needed to answer our research questions. Free text comments were allowed throughout the survey. We ensured anonymity for all survey respondents and pointed out that only highly aggregated results, which do not allow for company specific inferences, are disclosed in this research paper. At the very beginning, the survey differentiated between three mutually exclusive scenarios and thus determined alternative question loops to be pursued by the respondents: 1) an in-house M&A division was implemented and is currently operated, 2) an in-house M&A division is planned but not currently operated, 3) there is no intention to set up an in-house M&A division. The responses from the *MSCI World* sample comprised 128 times scenario one, two times scenario two and 15 times scenario

[11] Due to the larger number of returns we assume the collected data to be representative for other companies of about the same size that do run in-house M&A divisions. We might face a voluntary response bias, if only those companies responded which have a rather successful in-house M&A division. Also, we cannot exclude a social desirability bias, i.e. respondents try to present themselves in a better light, although we made the best effort in preventing that by emphasizing the anonymity of the survey.

three.[12] All responses from the *ARFA* sample comprised scenario one only. With regard to scenario one (there is an in-house M&A division already put into effect), which was the most important for answering our research question, the survey was retroactively categorized into three parts. This was however not displayed to the participants, who were guided through an integrated interface. The questions of the first part were set up to reveal specific reasons leading to the creation of internal advisory units as well as their main benefits and advantages. Aside from that, in-house M&A divisions' key competencies and responsibilities were investigated. Arising from the fact that a large number of deals are completed with the support of external M&A advisers, we additionally asked for distinctive reasons for engaging e.g. Investment Banks.

The second part consisted of questions on the quantitative and qualitative dimensions of Corporate Development departments. For instance, the professional background of employees working for in-house M&A divisions was asked for. Here, we were mainly interested in both the industry and the length of the employees' pre-experience. In addition to that, we asked for the year in which the in-house M&A division was set up in order to test the impact of the existence of an in-house M&A division on stock returns after transaction announcements [13]. The questionnaire also checked for the possibility that internal advisory units may be organised as profit centres to enhance their overall efforts.[14] Among others, questions on deal completion rates of in-house M&A divisions were included in order to benchmark them against the industry peer average. Furthermore, the survey allowed us to obtain information on the possible connection between deal size and the need for external advice. The final question provided the basis for analysing the effect of Corporate Development departments on the engagement turnover of external M&A advisers. The third part of the survey asked for general participant information. For instance, questions regarding the responding

[12] One additional respondent stated that the company does not operate an in-house M&A division but did not make any statement about future plans.
[13] See also chapter IV for a detailed study on the connection between in-house M&A divisions and their potential impact on announcement returns.
[14] Their efforts employed could potentially rise, if they had to compete with external advisers for being mandated as it is the case with some in-house consulting divisions.

companies' industry, overall headcount, as well as the headcount of the Corporate Development department were included.

The survey results for the *ARFA* sample are presented alongside the survey results for the *MSCI World* sample in the following chapters. If not explicitly stated otherwise, all figures and tables only contain information acquired through the *MSCI World* sample due to its higher representative status.

2. Empirical results

a) General information on survey participants

Industry allocation of participating companies

As we sent out the survey to 1,500 companies, we collected responses from firms operating in many different industries as shown in Figure 2. The most frequent industry belonging were *Banks, Insurances & Other Financial Services, Pharmaceutical & Healthcare, IT & Computer Technology, Oil & Gas and Industrial Goods*, which together account for more than 50 % of all 146 observations.

In the *ARFA* sample, the industries *Automotive, Banks, Insurances & Other Financial Services* as well as *Consumer Goods* together represent about 50 % of the responses.

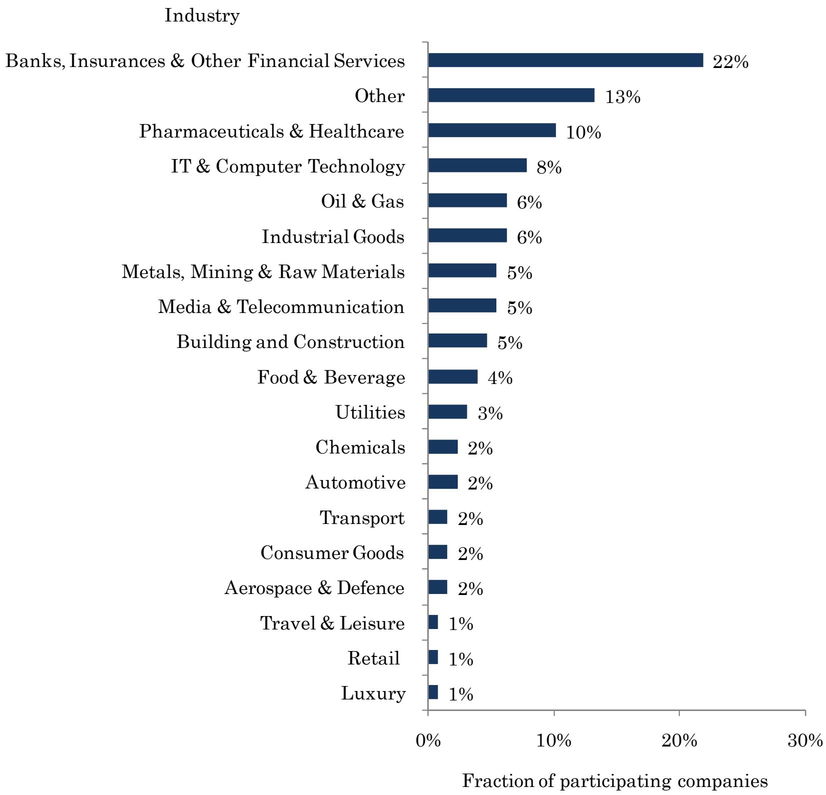

Figure 2: Industry allocation of participating companies

Geographical allocation of participating companies

In terms of the geographical location of the sample companies' headquarters, we received responses from 24 different countries. We grouped them according to the applicable continents, as displayed in Figure 3.

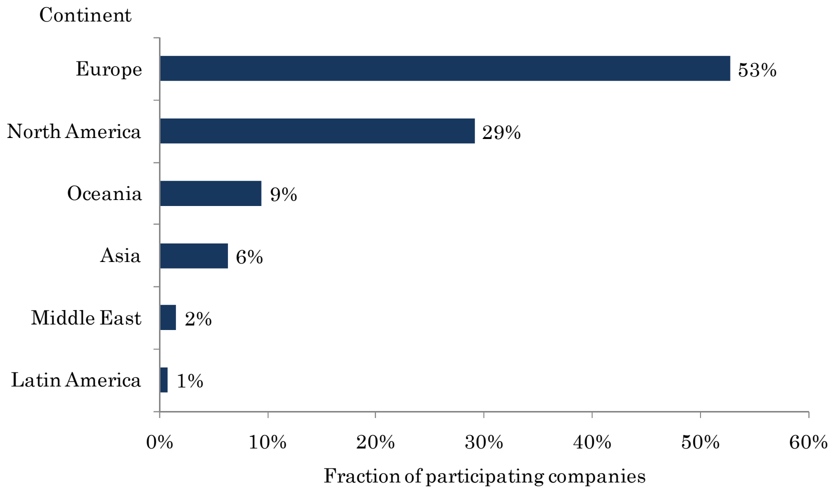

Figure 3: Geographical allocation of participating companies

Size of participating companies

One of the main reasons for defining the *MSCI World Index* as survey sample was to ensure that all survey participants have a significant size (measured in revenues). The assumption that larger companies generally execute a higher number of corporate transactions than smaller ones makes the investigated companies more likely to have a need for an in-house M&A division. Figure 4 reveals a rough arrangement of the participating companies' revenues:

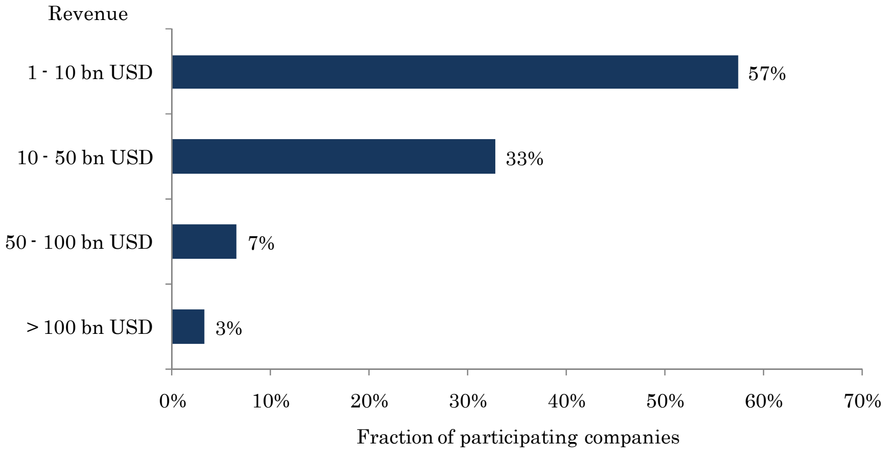

Figure 4: Revenue size of participating companies

The *ARFA* sample revealed a very similar distribution, with the smallest company having revenues of about 1 bn USD and the biggest company exceeding 100 bn USD of revenues. About half of the respondents were allocated in the 1 to 10 bn USD category and the 10 to 50 bn USD category respectively. As far as the company size is concerned, we can infer a strong similarity between the two separate samples. In Figure 5, the company distribution with regard to total headcount is displayed:

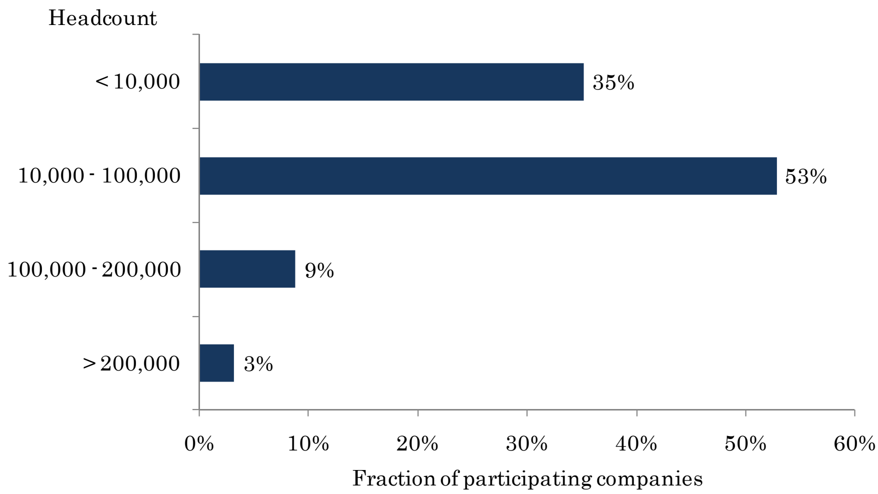

Figure 5: Headcount size of participating companies

b) In-house M&A divisions' purpose, range of functions and collaboration with external advisers

Benefits of in-house M&A divisions

Initially, empirical data about benefits of in-house M&A divisions were collected. The first question, which asked for specific foundation causes and major advantages of internal advisory units, was answered 110 times, which corresponds to a response rate of 86 %.[15]

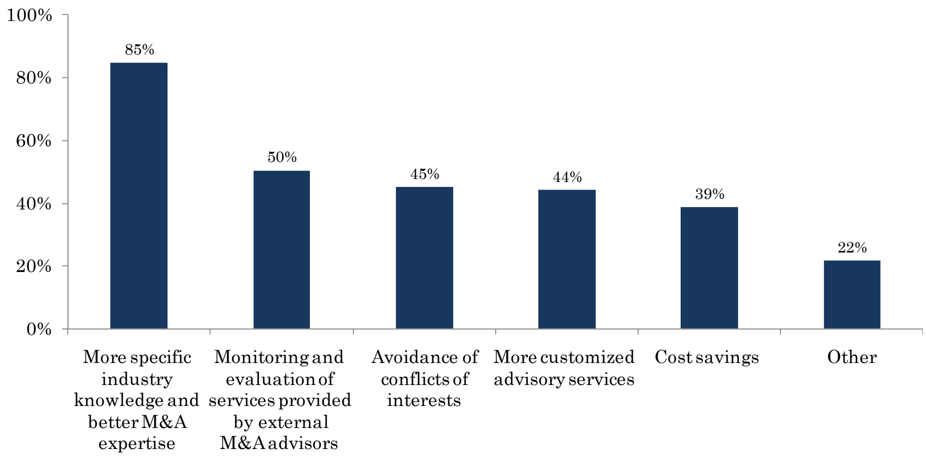

Figure 6: Benefits of in-house M&A divisions

All of the *ARFA* respondents also name *more specific industry knowledge and better M&A expertise* as the most important reason. The percentage split for the remaining four reasons shows slight differences, which may however be biased due to the low rate of responses. The answer choice *other* also exhibits the fewest number of observations.

The results displayed in Figure 6 convey a clear message: Companies feel that they have a *more specific industry knowledge and better M&A expertise* when compared to external M&A advisers. While the prevalence of superior

[15] From here on, all response rates only take answers stating scenario one as defined in the introduction into account.

industry knowledge is in line with our expectations, the better M&A expertise is not. Although many bulge bracket Investment Banks operate industry practises[16], they apparently do not seem to be perceived as having superior industry knowledge. There might be a notable difference between the industry knowledge acquired by Investment Banks through past deals, and the very specific and individual knowledge of the exact sub-industry and business environment a company is operating in. However, this also implicates that if a company aims to acquire a target operating in another industry, it is likely to seek external advice, which is in line with Servaes & Zenner (1996, p. 812). It is far more difficult to explain the perception of better M&A expertise. A potential reason could be that M&A advisory still incorporates some company specific aspects, which can be better addressed by internal departments than external advisers.[17] Relating to that, *more customized advisory services* are mentioned by half of the respondents as reason for the set-up. Most likely, companies prefer to be treated individually in important and sensitive transactions than being sold a more standardized financial consulting product, which is offered to several clients.

The second most important point, *monitoring and evaluation of services provided by external M&A advisers*, is in our opinion strongly connected to the results of the subsequent section "Key competencies and responsibilities of in-house M&A divisions", where *project management* was named most frequently, which includes the interaction with and supervision of outside parties. This aspect also contributes to a reduction in potential agency problems which otherwise could prevail in practise as explained by Yu (2010, p. 3). Apparently, the pure existence of an in-house division can increase pressure on Investment Banks, since the company has the ability to adequately control and assess external services.[18] It hence decreases the company's subjection to self-serving advice of Investment Banks (Kosnik & Shapiro 1997, p. 13). Implementing an in-house M&A division can

[16] For instance, see also the website of Credit Suisse https://www.credit-suisse.com/investment_banking/ for further information.
[17] Potentially, some respondents only referred to one of the two reasons integrated in this answer choice.
[18] See also "Engagement turnover of external M&A advisers", where we discuss how this aspect influences the engagement turnover of external M&A advisers.

eventually overcome this problem and partly restores informational symmetry between external adviser and corporate client. Consequently, internal advisory units may contribute to preventing potentially value destructive deals.

Almost equally frequent is the answer *avoidance of conflicts of interests*, which Investment Banks may face, especially when they offer more products than only M&A advisory. Conflicts of interests may include but are not limited to the prevailing interest of Investment Banks to generate fee income, i.e. to recommend deal completion regardless of the value creation or destruction for the client. This behavior is scientifically explained by the *deal completion hypothesis* (Rau, 2000, p. 294). Becher & Juergens (2009) also find that conflicts of interest between analysts, advisers, and investors are still existent in today's mergers and acquisitions despite the attempt of regulators to reduce them. [19] Nevertheless, the most important aspect confronting the *deal completion hypothesis* is that Investment Banks are inclined to provide value creating advice as it would otherwise negatively affect their reputational foundation. The Investment Banks' goal to generate value through M&A for their clients is commonly referred to as *superior deal hypothesis* (Ismail, 2009, p. 413). Both hypotheses[20] are still controversially discussed in literature and thus do not give ultimate guidance for companies seeking advice in M&A transactions. Internal advisory units seem to be a good method to overcome or at least decrease the risk of completing value destructive deals.

Cost savings, as mentioned in the introduction, do not seem to play an equally important role in the consideration to set up a Corporate Development department. This might be driven by the fact that M&A advisory, which is highly dependent on the advisers' tacit knowledge, relationship building ability as well as social and professional skills (Morrison & Wilhelm, 2007), is an expensive service regardless of whether it is provided internally or externally. Nevertheless, *cost savings* may be an

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[19] Evidently, this conflict of interest is non-existing in banks that offer only M&A advisory services.
[20] It is clear that the two objectives of deal completion and value creation for the client are not contradicting each other in most of the cases.

important aspect for specialized subtasks of a transaction process, e.g. *company valuation*[21].

As discussed above, there are both agency- and industry-related benefits. We assigned the possible responses according to their content to either of them in order to obtain an insight into whether agency- or industry-related reasons are more important. *More specific industry knowledge and better M&A expertise* as well as *more customized advisory services* are related to industry reasons. In contrast, *monitoring and evaluation of services provided by external M&A advisers* and *avoidance of conflicts of interests* are agency related reasons. Figure 7 demonstrates that industry-related reasons are of more importance:

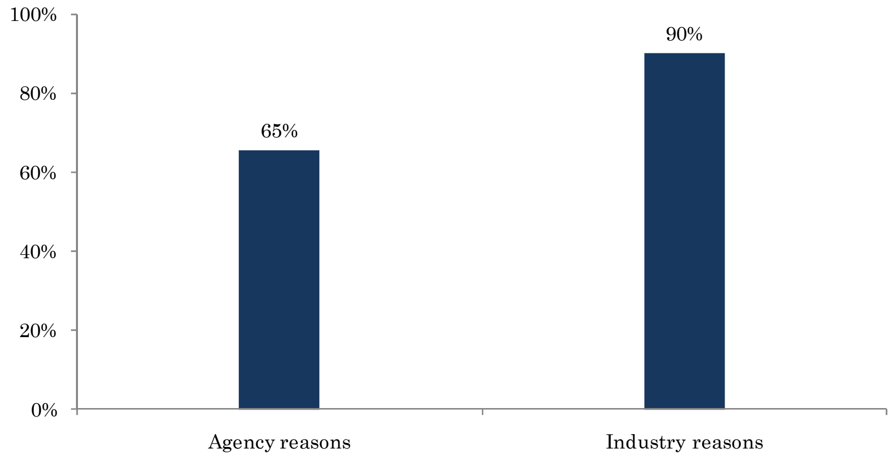

Figure 7: Agency- and industry-related benefits of in-house M&A divisions[22]

We also asked the survey participants for more specific and / or additional benefits of Corporate Development departments. The respondents outlined that dedicated, skilled and centralized transaction experience with specific knowledge about the company and markets is another key aspect to take into account. In addition to that, the possibility to leverage internal financial

[21] See also "Key competencies and responsibilities of in-house M&A divisions" in this chapter for further information.
[22] Note that we counted the response for "agency reasons" or "industry reasons" if at least one of the respective responses was checked.

research, e.g. gathering information about competitors, contributes to the success of the company's overall strategy. In-house M&A divisions also seem to allow for "more control on the overall M&A transaction, in particular on the strategic fit, risk assessment and evaluation of the target."[23] This also enables companies to react with better flexibility and more confidentiality in faster and unpredictable markets. Finally, we learn that "an internal group can focus on what the company needs and not just getting deals done" which is a criticism referred to as the above described *deal completion hypothesis*.

After accumulating the number of reasons per in-house M&A division, which is shown by Figure 8, we find that about 75 % of the respondents in total stated between two and four out of the six provided answer choices for their department.

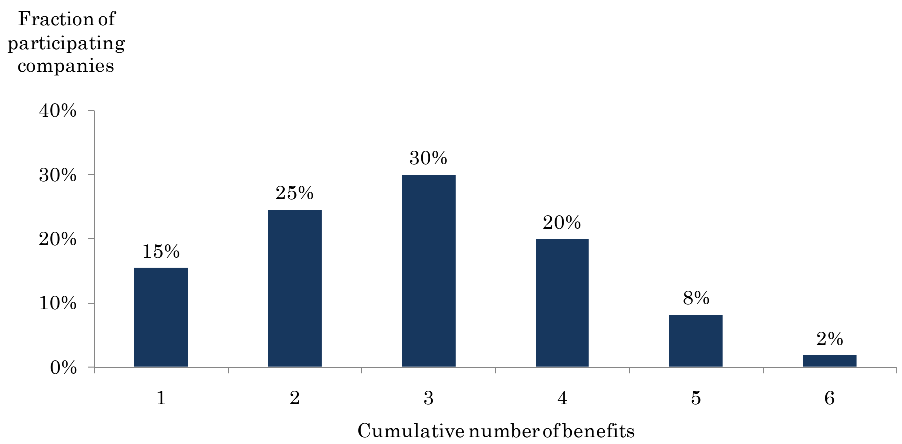

Figure 8: Cumulative number of benefits of in-house M&A divisions

Key competencies and responsibilities of in-house M&A divisions

Building up on this information, we asked for in-house M&A divisions' key competencies and responsibilities. This question was answered 117 times, which corresponds to a response rate of 91 %.

[23] Direct quote from one respondent.

First, we investigated the specific tasks performed by Corporate Development departments:

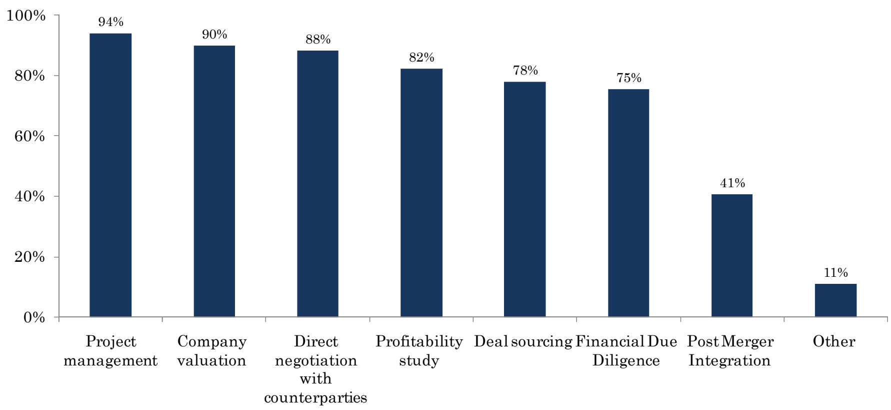

Figure 9: Key competencies and responsibilities of in-house M&A divisions

The *ARFA* sample responses show almost the same distribution (*direct negotiations with counterparties* and *company valuation* are the second and third most frequently indicated answer). In case of the engagement of Investment Banks, all tasks may be performed alongside external advisers, too.

Figure 9 reveals that almost every in-house M&A division is concerned with the general task of *project management* which includes, for instance, the coordination of M&A related processes or documentation work.

"This last item (overall project management) should not be underestimated or overlooked. A large part of executing a Strategic Transaction successfully is in managing the process efficiently and effectively and bringing to bear resources from a variety of places within the company."

(Frankel, 2005, p. 30)

Moreover, the Corporate Development department can be considered as single point of contact for external M&A advisers and other stakeholders concerned with corporate transactions in the context of *project management*. The advantageousness of this responsibility is controversial in literature, though. For example, it might be more beneficial for sellers to be in contact with the company's in-house M&A division, which has the strongest expertise in M&A related tasks, as well as the acquisition-concerned business divisions, which potentially can better assess operational aspects of the transaction target and its future integration (Roberts, 2009, pp. 33, 172).

Another main task is *company valuation* (90 %), which includes the valuation of acquisition targets. As this activity could also be performed by external advisers, this result might indicate that company valuation completed by in-house M&A divisions is linked to certain advantages and / or the possibility that external advice in this respect can be easily substituted by the companies themselves. In our view, companies using own valuations could also protect themselves against an external adviser mainly aiming at increasing the number of transactions closed (*deal completion hypothesis*).

From this result we can also infer the hypothesis that acquirers have a clearer view on the value of the target companies, also with regard to the future acquirer-target fit among other aspects, and thus perform superior valuations. The use of internal valuations as a back-up service to safeguard the management's M&A decisions could be an alternative explanation also outlined by Lee et al. (2004, p. 78). This assumption is also strongly linked to a frequently stated reason for the engagement of external M&A advisers, *securing the success of M&A transactions.* [24] Consequently, Investment Banks are very likely engaged for their function as a safeguarding party for corporate transactions.

In addition to this, Corporate Development departments are in charge of *direct negotiation with counterparties*. Hence, their existence, depending on the in-house M&A division's qualification, might enhance the negotiation power of the acquirer in M&A transactions. The high level of answers adds empirical evidence to Yu (2010, p. 4), who states that "the acquirer in-house advisers are better at extracting values through the negotiation process from their counterparts."

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[24] See also "Benefits of in-house M&A divisions" for further information.

Although a level of 82 % is very high, it is surprising that *profitability studies* are not conducted approximately as frequently as *company valuations*, since in-house M&A divisions should evidently have superior knowledge about synergies and integration costs. Also, this result is not completely in line with the answer frequency assigned to the task *company valuation*, which in fact has to take future profitability and integration aspects of target companies into account. There might be two reasons explaining this issue. First, the evaluation and computation of synergies could often be done by the respective subdivision in which the acquisition target will eventually be integrated. Building on this, the in-house M&A division could merely factor in the outcomes in its final valuation. Second, computing synergies requires a thorough knowledge not only of the acquirer but also of the target. External advisers might have better experience in fulfilling those two requirements.

The slightly lower number of observations for the answer choice *deal sourcing* seems reasonable. It is common that Investment Banks regularly pitch certain targets to their clients and thereby have a good impression of what might be of potential interest for them (Frankel, 2007, p. 177). As this service usually is not paid for by clients, there is a low incentive for companies to put a strong focus on this task. Taking this into account, the absolute level of 78 % is relatively high, though.

Another main task, which is completed by 75 % of the sample in-house M&A divisions, is *Financial Due Diligence*. This function is a major competency of the investigated internal advisory units, although frequently outsourced to technical advisers or financial consulting firms. As far as *Post Merger Integration* is concerned, we find a considerably lower number of positive answers (41 %). We infer that this partially operational task might also be performed by the division in which the target is to be integrated in the future.

We received various additional comments regarding the main tasks Corporate Development departments are in charge of. Analysing and working on the strategic dimensions of M&A transactions certainly belong to the range of tasks of some in-house M&A divisions. The employees might, for instance, conduct strategic studies and "formulate the strategy as well as execute the growth element of the strategy".[25] In addition to that, relationship building and management are further responsibilities, including the company's interaction with regulators. The comments add further evidence to our impression that in-house M&A divisions can indeed have extensive responsibilities and play a key role in designing, coordinating and executing the transaction process.

Second, we computed the cumulative number of key competencies and responsibilities across the sample Corporate Development departments and ranked them accordingly in the graph below. This ranking was designed to find out whether in-house M&A divisions are full-service providers or only in charge of a smaller number of tasks (Marks & Mirvis, 2010, p. 320).

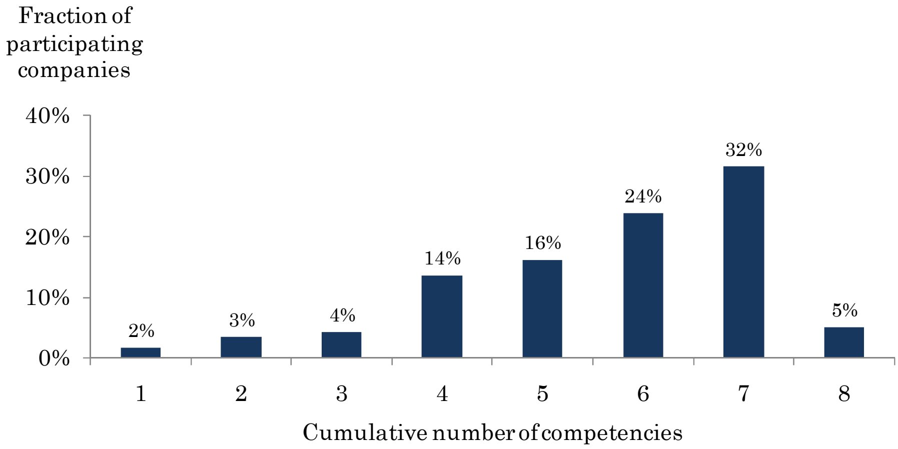

Figure 10: Cumulative number of key competencies and responsibilities of in-house M&A divisions

As demonstrated by Figure 10, about 85 % of the Corporate Development departments have between four and seven key competencies and responsibilities, while more than 50 % name six or seven. We infer that if an in-house division exists, it is in charge of the accomplishment of a larger

[25] Direct quote from one respondent.

field of tasks. Naturally, specific tasks and processes attached to M&A transactions go hand in hand with each other. In-house M&A divisions seem to reflect this and can be seen as specialized, medium- or full-service M&A advisory units. Today, a considerable number of companies feel very confident in executing transactions without the engagement of Investment Banks (Jenkins, 1996, p. 34).

Reasons for engaging external M&A advisers

The remaining question of the first survey block was aimed at revealing information about the reasons for engaging external M&A advisers in corporate transactions given the existence of an in-house M&A division. It is insightful to see how the need for external services is perceived and in which way those outside parties can deliver additional value to companies that already have a Corporate Development department. The question was answered 106 times, which corresponds to a response rate of 83 %. Respective answers are shown in Figure 11:

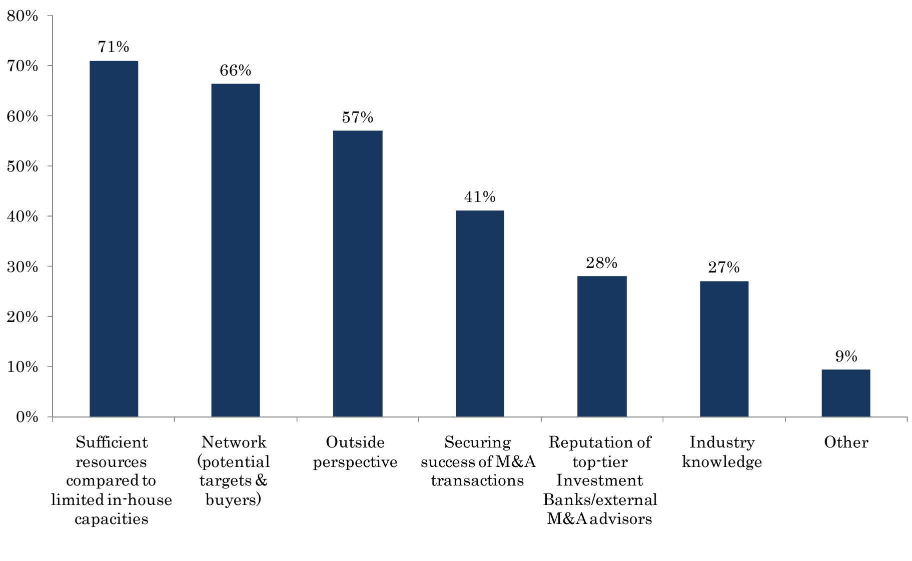

Figure 11: Reasons for engaging external M&A advisers

With regard to the empirical results of the *ARFA* sample survey, the two most frequently checked reasons are the same, although they appear in reverse order: The answer choice *outside perspective* was slightly less important, while the answer choice *securing success of M&A transactions* exhibited a higher score. The remaining three reasons are also ranked differently with *industry knowledge* having the lowest number of observations.

Arising from the wide range of functions assigned to internal advisory units, it is not surprising to find that there may be situations where a Corporate Development department does not have sufficient resources to complete all tasks related to the M&A processes. It could well be that the larger number of tasks in bigger transactions cannot be pursued by in-house M&A divisions alone. In these situations, the internal advisory unit is likely to be in charge of project management and accomplishes tasks complementary to the work done by external M&A advisers.[26] The high level of observations for the answer choice *sufficient resources compared to limited in-house capacities* is consistent with Russo & Perrini (2006, p. 51) who name technical as well as financial resources, which improve the effectiveness and efficiency of a transaction, as main advantages of engaging external M&A advisers.

Further on, a network including potential acquisition targets / merger partners adds value to corporate clients of external M&A advisers. The emphasis of the Investment Bank's network might explain the finding of Yu (2010, p. 4) that in-house advisers do generally not come up with better targets than external advisers. The aspect that Investment Banks are the missing and important link between buyers and sellers fits into existing literature: They are often described as agents, who are able to lever their network and to complete the data collection process (Hunter & Jagtiani, 2000, p. 4). In fact, our finding is in line with Servaes & Zenner (1996, p. 812) who point out that Investment Banks are able to reduce informational asymmetries between target firms and acquirers.

[26] See also chapter III for further information.

In addition to that, the evident drawback of more company specific knowledge is the limited outside perspective internal advisers can take on. By construction, Investment Banks are able to use their advisory experience with other companies both in the same or different industry which is valuable for clients. Hence, their *outside perspective* enables companies to get a better and more objective impression of the target.

The number of responses for the answer choice *securing success of M&A transactions,* which especially refers to the avoidance of potential shareholder claims, is surprisingly low. In close relation to this, we see the value certification function by Investment Banks which is also subject to academic discussion (Rau & Rodgers, 2002). Both aspects would support a higher number of positive answers for this characteristic. However, the majority of in-house M&A divisions seems capable of doing so without external advice. [27] Less than one third of the respondents mention the *reputation of top-tier Investment Banks / external M&A advisers* which is an engagement reason related to the value certification function.

We already outlined the finding that internal advisory units potentially have better industry knowledge. This is supported by the low number of answers for the choice *industry knowledge* in the context of benefits of external M&A advisers. However, it appears that superior industry knowledge alone is not sufficient to successfully execute acquisitions.

Besides the predefined answers, we again received individual comments, which are outlined in the following: Since it is relatively common not to finance deals with equity only, the access to debt capital is a prerequisite for conducting a transaction. Hence, access to credit markets could be a considerable motive for engaging external advisers (Allen et al., 2004, p. 217). As financial institutions, Investment Banks are able to raise debt financing for their M&A advisory clients if needed. Another survey participant indicated the obligation to engage external advisers as an additional reason

[27] The findings in the subsection "Transactions without any external adviser involvement" in the chapter "Qualitative and quantitative dimensions of in-house M&A divisions" partly disprove this assumption. There it can be seen that the fraction of transactions completed without advising Investment Banks strongly decreases with deal size.

for their involvement in transactions. The underlying rationale could be as follows: In order to protect the company from extensive flaws in internally conducted valuations, external advice is demanded (Parijs, 2005, p. 138) and thus prevents claims from shareholders if a transaction eventually turns out to be value destructive. This is in line with the need for a second, independent fairness opinion provided by external parties, which was also stated frequently. One respondent mentioned that external advisers do lots of front end work which corresponds to the finding[28] that most in-house advisers are in charge of project management.

From Figure 12 we infer that about 75 % of the respondents name between two and four reasons for mandating external M&A advisers. Apparently, there is still a clear need for externally provided services independent from the existence of a Corporate Development department. The cooperation between external M&A advisers and in-house M&A divisions is explained by several senior professionals in chapter III.

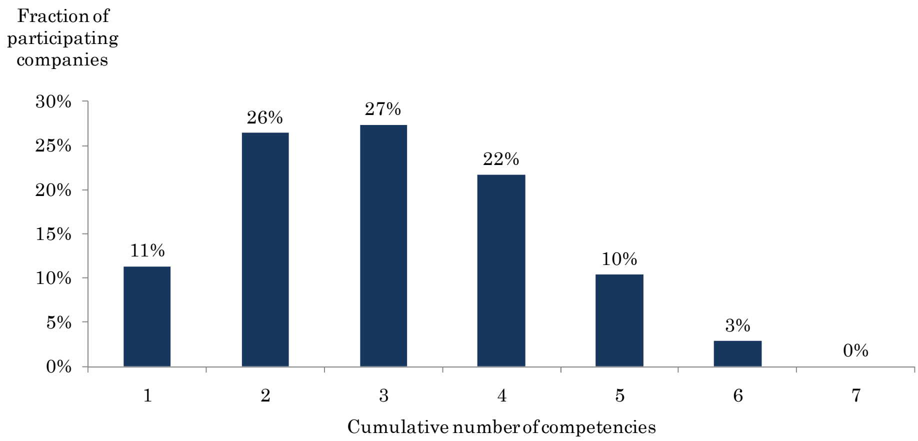

Figure 12: Cumulative number of reasons for engaging external M&A advisers

[28] See also "Key competencies and responsibilities of in-house M&A divisions" for further information.

c) Quantitative and qualitative dimensions of in-house M&A divisions

Headcount of in-house M&A divisions

First, we asked for the headcount of the sample in-house M&A divisions. We find a median of six employees, while there is a maximum of 78 and a minimum of two. Those numbers are diagnostically less conclusive when not adjusted for the respective company size, which was measured in rough yet informative categories for the total company headcount. The results are displayed in Figure 13:

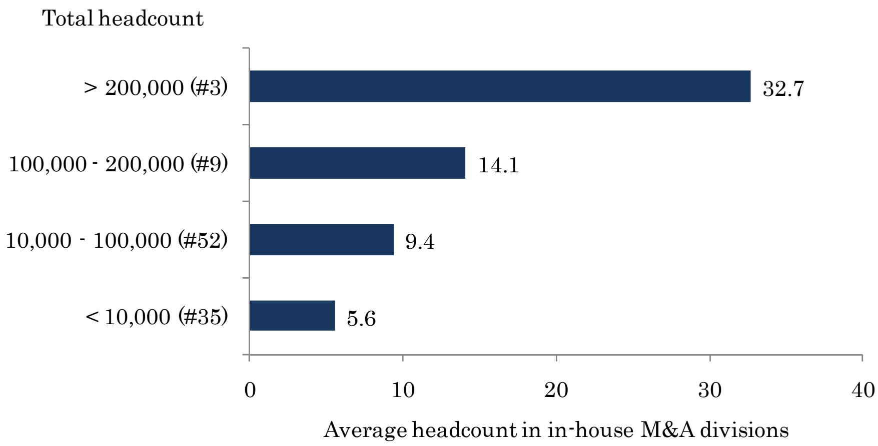

Figure 13: Average headcount in in-house M&A divisions

Unsurprisingly, the biggest sample companies in terms of total headcount indicated the highest number of employees (average: 32.7) in their Corporate Development departments. This corresponds to the considerably higher M&A activity of big companies likely operating globally compared to smaller *MSCI World* companies (Subramanyam, 2008).[29]

We also aimed at checking potential differences in the size of in-house M&A divisions (measured in number of employees) across different industries in order to constitute potential connections between the headcount of the

[29] Obviously, there are also various other factors such as industry consolidation or credit expansions etc. that have an impact on deal activity.

internal advisory unit and the respective industry M&A activity. The partly incomplete data did however not allow us to implement this approach.[30]

Previous work experience of internal M&A advisers

"In a sense, the Corporate Development team works like a conductor with an orchestra, bringing together and coordinating staff throughout the company and throughout a variety of functions. This emphasizes perhaps the most important expertise that the Corporate Development staff have, namely a familiarity with the deal process and the key steps required to get a deal done."

(Frankel, 2005, p. 30)

In a second step, we researched the industry in which employees of Corporate Development departments have gained previous work experience. For this question, we received 104 answers, which corresponds to a response rate of 81 %. Figure 14 demonstrates the distribution of previous work experience:

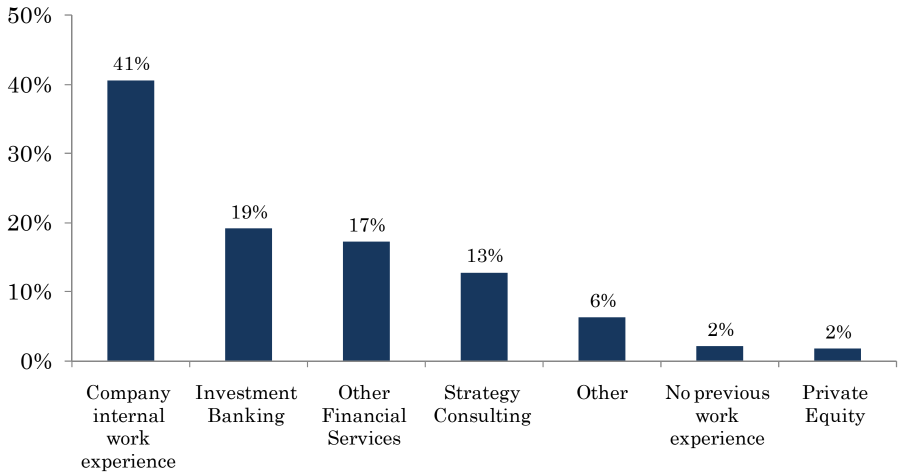

Figure 14: Previous work experience of internal M&A advisers across industries

[30] This was mainly due to the difference in industry categories, which were used in our survey and the databases.

We expected most employees of in-house M&A divisions to have a background in *Investment Banking*, as professionals coming from this industry should have learnt the skills necessary for conducting successful transactions. However, a far more frequently indicated field is *company internal work experience*. An explanation could be found in the above analysis, where we already discussed that specific company and industry knowledge is of great importance.[31] People, who spent several years working for a different or related company unit, got to know their employer very well and thus may strongly contribute to the success of a Corporate Development department, which offers a customized and individual advisory product. However, we find that as few as 7 % of the sample in-house M&A divisions exclusively recruited internally, which suggests that Corporate Development departments generally seek diverse skills and backgrounds.

When recruiting outside employees with previous work experience, companies focus mainly on the fields of *Investment Banking*, *other financial services* (e.g. Audit, Transaction Advisory etc.) and *Strategy Consulting*. By looking at the general job requirements in those industries, a huge overlap in tasks and functions to be performed by employees can be observed.[32] The answer choice *Private Equity* lags far behind, although a lot of work specifications should be congruent with those in a Corporate Development department. The most obvious explanation for this observation is that there is no monetary switching incentive, since people working in the Private Equity industry usually have a very high salary (Korb & Finkel, 2008, p. 179).

We expect employees with a legal background to be mainly subsumed under the answer choice *other*, as they are capable of examining the arising legal issues in a transaction. However, as the level of answers is relatively low, employing formerly external legal advisers does not seem to be a main consideration.

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[31] See also “Benefits of in-house M&A divisions“ for further information.
[32] See also “Key competencies and responsibilities of in-house M&A divisions” for further information.

The low number of employees without previous work experience strongly supports the assumption that working in Corporate Development departments divisions requires practical knowledge, either gained by working for other divisions in the same company or by working for external advisers. Therefore, e.g. direct recruiting of university graduates for internal transaction advisory is precluded in most cases.

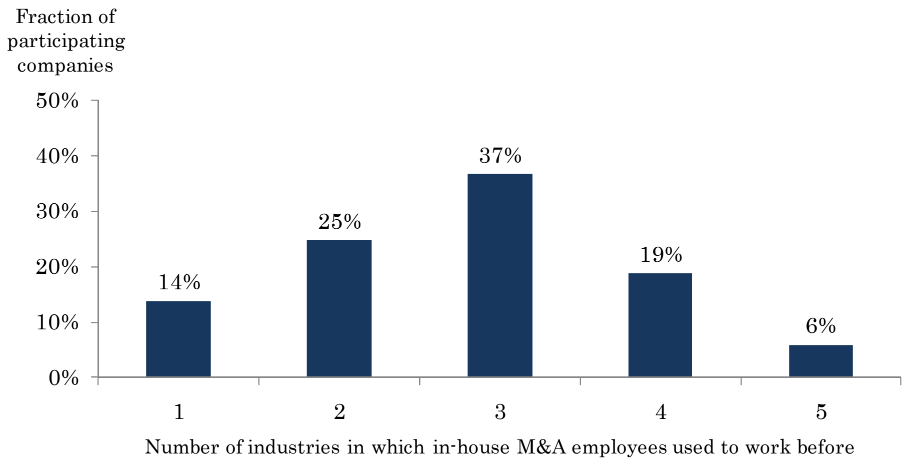

Figure 15: Cumulative pre-experience diversity of internal M&A advisers

Figure 15 shows that the number of different industries prevailing in the sample in-house M&A divisions is centred around three, alongside a considerable number of observations for two and four. The graph supports the assumption that the employee background in most Corporate Development departments is relatively diverse. For instance, 61 % of the respondents have employees from at least three different backgrounds. [33]

Length of previous work experience of internal M&A advisers

In addition to the industry of previous work experience, we also researched its distribution over different length patterns. Within the question, we

[33] The possible answer choice *other* does not allow us to control for the possibility that more than one additional industry is subsumed under this category in our data material, which would further support this finding.

differentiated between years of work experience and industry. In total, we received 85 responses, which corresponds to a response rate of 66 %.

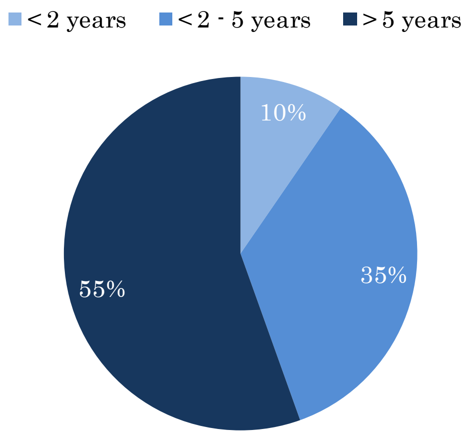

Figure 16: Length of previous work experience of internal M&A advisers

Figure 16 shows that more than half of the employees of in-house M&A divisions have previous work experience of more than five years. When combined with the 35 % of employees allocated to the category of two to five years, we can state that the overwhelming majority of employees already have a decent amount of professional experience before entering Corporate Development departments. Based on the above outlined responsibilities and competencies of internal advisory units, superior technical and / or company specific knowledge can be expected as an employee entry requirement, which is also outlined by Massoudi (2006, p. 35). Only about 10 % of internal advisers have work experience of less than two years. This is also in line with the observations in the *ARFA* sample. About 54 % of employees worked five years or longer, 42 % between two and five years and 4 % less than two years.

The distribution of previous work experience can also be analysed individually for the two most frequently indicated fields / industries: *company internal* and *Investment Banking* work experience. In-house M&A divisions exhibit the highest emphasis on a considerable length of previous work experience when recruiting internally. Most of the people have more than five years of prior work experience. This is strongly linked to the above outlined observation that internal advisory units value a deep company specific knowledge, which can only be gained through a long-lasting employment with the company. In terms of human capital management, this is also one of the main assets employees can contribute to Corporate Development departments. Figure 17 makes the emphasis on the length of previous work experience clear:

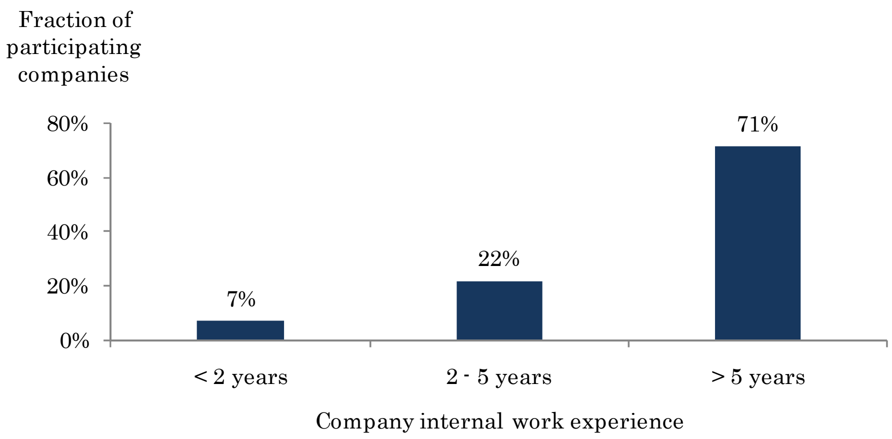

Figure 17: Length of company internal pre-experience

Most of the people recruited by in-house M&A divisions with an Investment Banking background leave their employing banks as Associate or at an even higher level. This can be derived from the allocation displayed in Figure 18, taking into account an average time of three years to reach the Associate level.[34] Again, we see a close link to what we investigated earlier: Important benefits when engaging external advisers are their outside perspective as well as a good overall network for all aspects related to M&A transactions. It is important to understand that both attributes are rather embedded in the individual employees than in the Investment Bank (Morrison & Wilhelm, 2007, p. 88). By recruiting former Investment Bankers with long previous work experience, internal advisory units employ and acquire the skills which they otherwise had to buy externally.

[34] See also career levels specified by leading international Investment Banks.

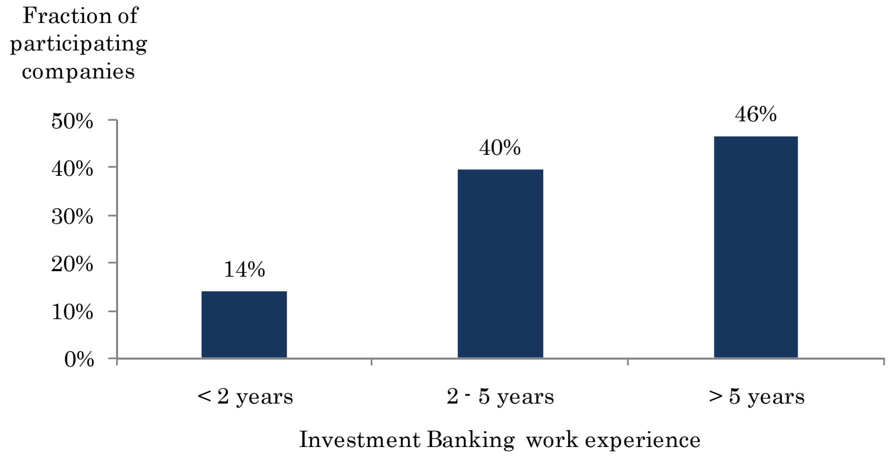

Figure 18: Length of Investment Banking pre-experience

To conclude, recruiting of both external and internal employees takes place while there is great emphasis on senior staff. Using that recruiting scheme, the Corporate Development department partly overcomes the problem that companies "pursuing a merger, acquisition, or divestiture are becoming increasingly dependent on the expertise and experience of investment banks" when there is no in-house M&A division as outlined by Kosnik & Shapiro (1997, p. 12).

Foundation dates of in-house M&A divisions

M&A activity is strongly driven by economic cycles (Renneboog & Gregoriou, 2007, p. 1). In order to analyse potential connections to the foundation dates of in-house M&A divisions as well as to introduce an announcement return study in chapter IV, the survey participants were asked when exactly their internal advisory unit was founded. For this question, we received a total number of 95 answers, which corresponds to a response rate of 74 %.

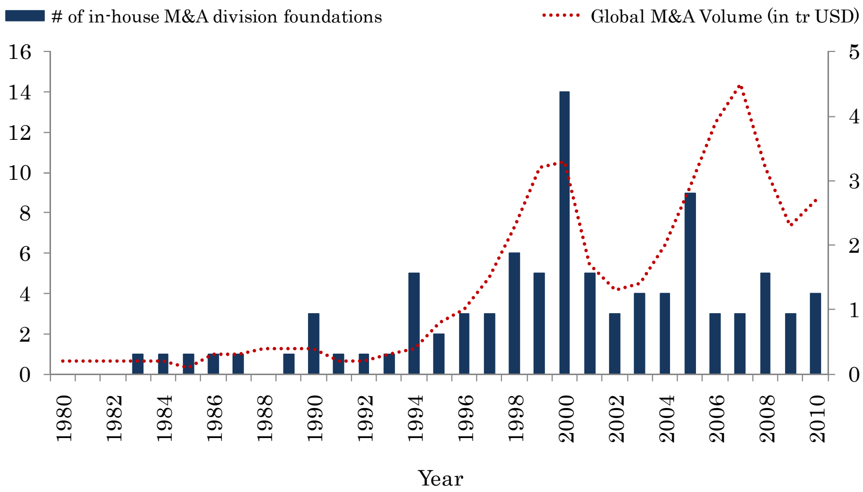

Figure 19: In-house M&A division foundations and global M&A volume

From Figure 19 we learn that the number of foundations of in-house M&A divisions is cyclical and positively correlated (+0.65) with changes in global M&A activity.[35] It can be observed that a huge majority of foundations of in-house M&A divisions took place in the time period from 1990 to 2010, which also applies to the *ARFA* sample (75 % of foundations). This survey result is in line with the growing overall demand for M&A advisory products in the last two decades, as mentioned in the introduction of the paper. Prior to the burst of the IT bubble in 2000 and the 9 / 11 terrorist attacks in the USA in 2001, we find a huge increase in Corporate Development department foundations moving in line with global M&A activity. Interestingly, a time lag for the number of foundations cannot be observed, which implies that companies have been reacting very fast in setting-up their internal advisory units and / or anticipated e.g. consolidation waves well. This pattern is equivalently consistent for market downturns such as the worldwide financial and economic crisis in 2008 and 2009. Future development of the

[35] See also “Regressions” in the appendix for further information.

foundations of in-house M&A divisions can be expected to follow this scheme.[36]

Organisation of in-house M&A divisions as profit / cost centres

Company internal (strategic, financial, operative etc.) advisers sometimes have to compete directly with external parties.[37] Consequently, we asked whether the internal advisory unit is run as a separate profit centre. We received 95 answers for this question, which corresponds to a response rate of 74 %.

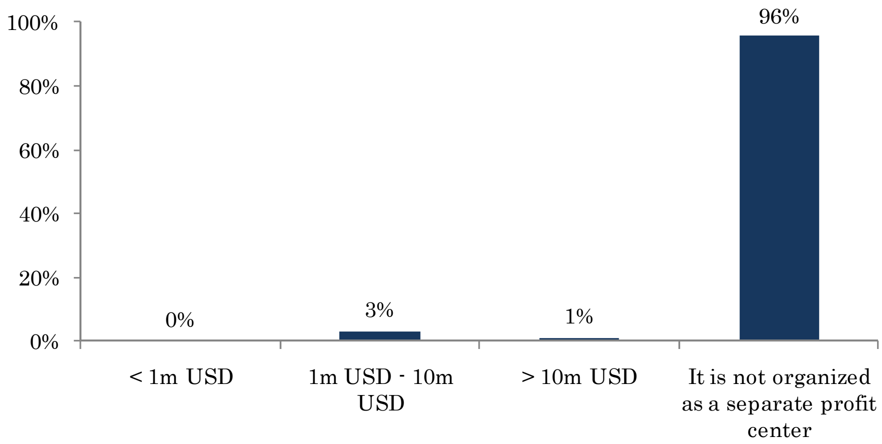

Figure 20: Organisation of in-house M&A divisions as profit / cost centres

Apparently, this is not the case for a vast majority of survey participants (96 %) as revealed by Figure 20. In fact, this finding confirms the impression we obtained earlier: When external advisers are engaged many in-house M&A divisions are above all in charge of project management and / or other specialized tasks rather than real full-service advisers who offer all products necessary to complete a corporate transaction. It can be assumed that in-

[36] In our sample, two respondents indicated to plan the foundation of an in-house M&A division.

[37] For instance, Siemens Management Consulting has to compete with external strategic advisers. See also: https://www.smc.siemens.de/en/faq/ for further information.

house M&A divisions are generally not put into effect in order to substitute external advisers but rather to cooperate with them in order to jointly maximize shareholder value. The same logic applies for the *ARFA* sample, where all respondents indicated not to run their in-house M&A division as separate profit centres.

Deal completion rates of firms with in-house M&A divisions

The survey also intended to investigate whether Corporate Development departments have a positive impact on the success of bids, i.e. the fraction of first round bids which eventually win an auction. We define the completion rate as the ratio of completed deals divided by the number of bids, which were launched in a first round M&A process. Since so called "under-radar" deals, which often do not get much public attention (Morris & Gole, 2007, p. 3), are easier to execute due to their small size, the decreasing completion rate trend towards big deals with a transaction size of over 1 bn USD is logical. However, it has to be emphasized that there are only relatively small differences of about three percentage points between the size categories. It would have been insightful to benchmark the obtained information against deal completion rates of transactions exclusively conducted with external M&A advisers. Several researches (Bates, Lemmon, & Linck, 2004), however, focus on alternatively defined deal completion rates (completed deals divided by announced deals). The deal completion rate introduced by Marquardt & Zur (2010) is centred at around 80 %, although it is not directly comparable with our observations. When discussing deal completion rates in the context of value creation of internal as well as external M&A advisers, the following aspect must not be left aside:

"[…] shareholder value can be destroyed by a bad deal just as it can be enhanced by a good deal, and as the leaders of the deal process, it is incumbent on Corporate Development teams to stop bad deals from happening. However, just as with proving a negative, it is difficult to demonstrate value added by deals avoided."

(Frankel, 2005, p. 30)

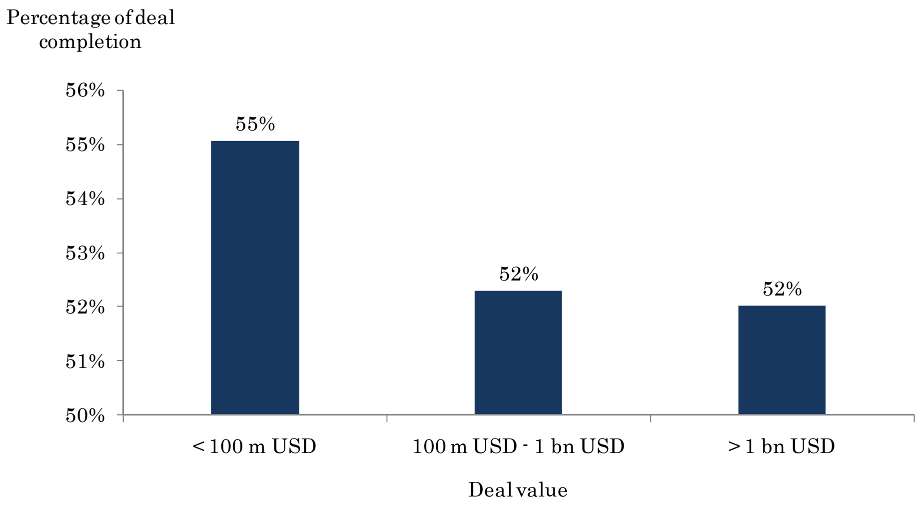

Figure 21: Total deal completion rates of companies with in-house M&A divisions[38]

Transactions including external M&A advisory

As there is a rising trend for transactions which are performed without the help of external advisers (Davidson, 2008, p. 57), we also aimed at quantifying the impact of the existence of an in-house M&A division on the engagement of external advisers. In particular, we asked all survey participants to state the percentage of deals that take place entirely without the involvement of external advisers in different deal size categories.

[38] This figure reveals only limited insight as we could not obtain corresponding data for companies which operate without an internal advisory unit. However, we included it as it may be highly useful for future research.

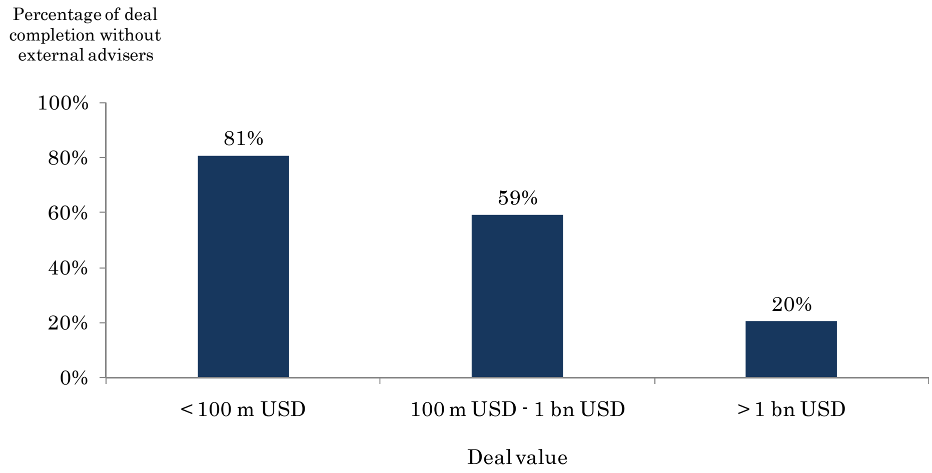

Figure 22: Fraction of transactions without the involvement of external M&A advisers

According to our expectations, Figure 22 reveals that the percentage of Investment Bank involvement[39] is positively correlated to the deal size. Vice versa, fewer deals are exclusively guided by in-house M&A divisions with increasing transaction size; relatively small transactions below 100 m USD ("under-radar deals") are executed by in-house M&A divisions in 81 % of the cases. There are several underlying explanations which justify this distribution. On the one hand, it can be argued that larger deals are more complicated to accomplish than smaller ones, which raises the need for more external M&A advisory services. On the other hand, existing literature does not essentially state that deal complexity is arising from aspects related to transaction size (Rau & Rodgers, 2002, p. 8). We therefore conclude that also the bigger risk, which is inherently associated to larger deals, triggers an involvement of external advisers. This might also be due to internal company policies.[40] Further developing this notion, we assume that the safeguarding and value certification function of Investment Banks plays a larger role than our data evaluations in the first question block suggest. By analysing those questions, we found that securing the success of transactions

[39] Involvement is defined as 100 % – observed percentage; e.g. for deal values above 1 bn USD it is 100 % – 20 % = 80 %.
[40] See also "Reasons for engaging external M&A advisers" for further information.

(for instance to prevent shareholder claims) is only important for 41 % of the respondents. Given the results above, it is likely that this number would be considerably higher for larger deals, which also supports Rau & Rodgers (2002, p. 3) hypothesis that Investment Banks are hired to certify value.

Engagement turnover of external M&A advisers

In addition to the percentage of deals that took place without an involvement of external advisers, we analysed aspects related to the engagement turnover of external M&A advisers.

We formulated the hypothesis that there potentially is a negative correlation between the headcount of the Corporate Development departments and the number of external advisers engaged in the last three years divided by the headcount of the in-house M&A division. One explanation could be that larger internal advisory units generally have a lower need for external advice. Moreover, the large size of in-house divisions could lead to a decrease in adviser turnover, which potentially arises from the stronger negotiating power towards and independence from external M&A advisers. As outlined by Saunders & Srinivasan (2001, p. 16), there are various “indirect” benefits by sticking to one adviser. For instance, this includes an increased quality of the provided advisory services, a better bargaining power towards sellers as well as the receipt of additional services, among others. In-house M&A divisions might be especially valuable for the evaluation of those “indirect” benefits.

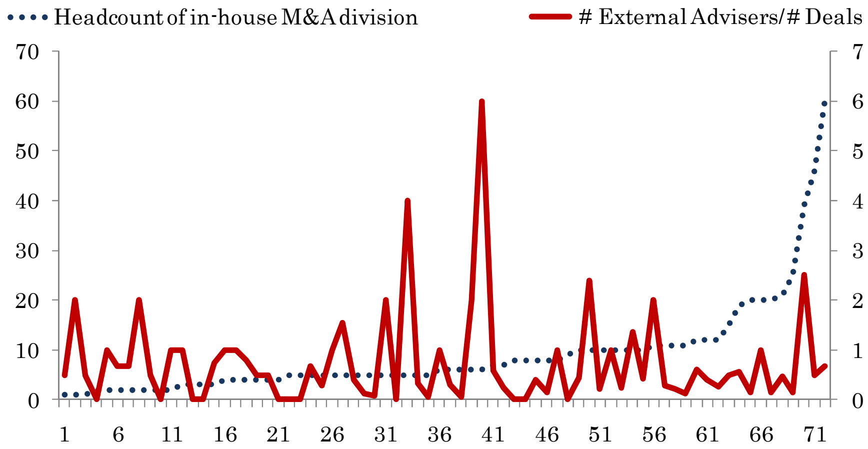

Figure 23: External adviser turnover and headcount of in-house M&A divisions[41]

Figure 23 graphically shows the connection between the adjusted number of external advisers engaged in the last three years and the headcount of the sample Corporate Development departments. The adjustment controls for the possibility that the number of external advisers engaged in the last three years may also be driven by the number of executed M&A transactions in this time period. From a statistical point of view, we find a very small, unsignificantly positive correlation (on the 95 % confidence level) between the two variables for M&A transactions, which opposes our initial hypothesis. Therefore, an alternative explanation might be that larger in-house M&A divisions lever their negotiating power and thus change external advisers more frequently. In fact, they could not only assess pitches in a more detailed way, but also evaluate the performance of engaged advisers more accurately.

Furthermore, we tested the connection between the adjusted external adviser turnover and the percentage of employees with previous work experience in the Investment Banking industry as can be seen in Figure 24. A higher fraction of Investment Banking pre-experienced employees was assumed to have a negative impact on the advisory turnover due to the bonds and affinity of former Investment Bankers to their past employer.

[41] See also "Regressions" in the appendix for further information.

This may lead to a reduction in the fluctuation of external M&A advisers. The correlation proved to be unsignificantly negative for M&A transactions (on the 95 % confidence level).

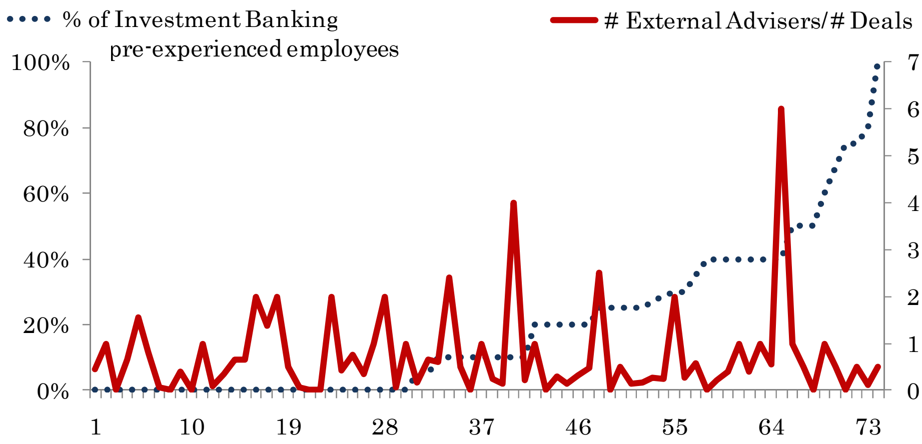

Figure 24: External adviser turnover and the fraction of Investment Banking pre-experienced employees [42]

Tiers of external M&A advisers before and after the implementation of in-house M&A divisions

Finally, we formulated the hypothesis that the existence of an in-house M&A division may be negatively correlated to the fees paid for external services due to the reduced need for and partial substitution of outside advice. Arising from the lack of fee information in the relevant databases, this question could not be directly answered.

In an alternative approach, advisory fee payments were measured by the tier of the advising Investment Bank. Our data displayed in Table 1 reveal that the tiers of external M&A advisers are insignificantly higher after the implementation of Corporate Development department. [43] That gives slight evidence to a rise in the quality of Investment Banks engaged after internal

[42] See also "Regressions" in the appendix for further information.
[43] See also "Hypothesis testing" in the appendix for further information.

advisory units were set up. However, the low number of observations has to be emphasized in this context, as well the fact that the higher quality of external M&A advisers does not necessarily correspond to an overall reduction in advisory fees paid.

Company	before	after	delta
1	0%	10%	10%
2	20%	37%	17%
3	100%	100%	0%
4	100%	0%	-100%
5	83%	81%	-2%
6	0%	0%	0%
7	0%	14%	14%
8	50%	25%	-25%
9	50%	82%	32%
10	0%	55%	55%
11	0%	32%	32%
12	50%	63%	13%
13	35%	0%	-35%
14	0%	67%	67%
15	0%	100%	100%
16	100%	25%	-75%
17	86%	100%	14%
18	25%	18%	-7%
19	50%	67%	17%
20	0%	0%	0%
21	50%	100%	50%
22	0%	0%	0%
23	56%	44%	-12%
24	0%	100%	100%
25	100%	50%	-50%
26	0%	15%	15%
27	0%	67%	67%
28	0%	33%	33%
29	67%	40%	-27%
Mean	35%	46%	10%
Median	25%	40%	13%
SD	38%	35%	45%

Table 1: Fraction of top-tier Investment Banks engaged before and after the implementation of in-house M&A divisions

After describing the findings derived from our online survey, we continue to analyse further empirical data acquired through expert interviews with in-house M&A professionals in the following chapter.

III. Expert interviews – the typical processes in and set-up of in-house M&A divisions

1. Objective and methodology

Through our online survey, we were able to gain valuable insights into the general characteristics of Corporate Development departments. We analysed and interpreted various aspects and linked them to existing financial theories. Nevertheless, we disposed of only limited information about detailed processes such as the cooperation between internal and external advisers, hierarchical structures or the recruiting processes up to then. For this reason, we designed an additional question guideline on which we built several expert interviews conducted with senior practitioners working in Corporate Development departments of *MSCI World* companies.[44] The following table provides an overview about the interviewees, which represent a diversified sample in order to gain an understanding as broad and complete as possible

Interview	Date	Industry	Turnover (in bn USD)
1	01. Apr 11	IT & Computer Technology	1
2	01. Apr 11	Banks, Insurances & Other Financial Services	1 - 100
3	04. Apr 11	Automotive	>100
4	05. Apr 11	Media & Telecommunication	10 - 100

Tabelle 2: Overview of interviewees

In this chapter, we describe our findings for different sub-aspects of our research questions and link them to the empirical results explained in chapter II.

[44] See also “Guideline for expert interviews” in the appendix for a full version of the interview guideline.

2. Organisation and administration

From the interviews we learnt that most of the in-house M&A divisions are incorporated in a Corporate Strategy and Development unit, which consists of both a strategy and M&A function. In several internal advisory units, there had been a shift towards more competencies, mostly driven by increased size and / or strategic complexity of the company.

While we find that most companies run a centralized in-house M&A division, it might also occur that a company's in-house M&A activities are structured in decentralized Corporate Development divisions across several operational divisions / brands as well as a centralized unit ("hub function") which is for example located in the Group Controlling department. This central unit is not only concerned with acquisitions or divestitures, but also with strategic cooperations, especially those, which affect the overall company or at least more than one business unit. This is in line with our finding that industry knowledge alongside specific company knowledge is a crucial advantage of in-house M&A divisions.[45] Most likely, when a corporation exceeds a certain size or complexity, this advantage is only fully realisable when implementing several decentralized in-house M&A functions.

The organisation and hierarchical structure are very dependent on the headcount of the in-house M&A division. For instance, a relatively large unit with eleven employees is structured as follows: Besides the Executive President, there are two Vice Presidents, who each cover two of the four operating divisions. Also, there is one director and two analysts. In addition to that, there are two lawyers (which are, however, not 100 % dedicated to this division only) as well as two integration specialists, one HR specialist and one controller who all formally report to other divisions but are concerned with Corporate Strategy and Development activities only. This division reports to the CEO. Another company runs an in-house M&A with three employees, which includes the Head of M&A and two project managers. The head of M&A reports directly to the Head of Corporate Finance and

[45] See also "Reasons for and benefits of founding in-house M&A divisions" in chapter II for further information.

M&A, who in turn reports to the CFO. We derive from our interviews that the divisions tend to report to the CEO when they are in charge of both strategy and M&A, and tend to report to the CFO when they are in charge of M&A only.

In addition to that, a potential focus of the internal advisory unit on certain products or operating divisions was investigated. In general, larger in-house M&A divisions seem to have such a focus for senior employees. For instance, Vice Presidents could be dedicated to certain divisions. In contrast to that, the director and analysts would rather form a pool, i.e. they might be allocated to all existing operational divisions without a special focus. For one interviewed company, this is also the case for all the other "non-execution" employees (lawyers, HR, controller etc.). In smaller companies, the in-house M&A division often does not have a specialisation for distinct countries or products. Its engagement can be described as rather project- and resource-driven.

When there is a decentralized in-house M&A structure, the divisional hubs execute own M&A transactions and conduct business development activities independently as long as only their own division is concerned, whereas the centralized group hub is only in charge when several divisions are concerned.

3. Competencies and responsibilities

Complementary to our survey, we aimed to explore our interviewees' experience with key competencies and responsibilities of their internal advisory units. In-house M&A divisions enable the company to react faster to attractive transaction opportunities. Hence, a main advantage is the knowledge of internal processes, information flows as well as the key persons involved in corporate transactions. In close connection to that, there are coordinative activities which are an advantage not only with regard to external advisers but also to the coordination of internal requests. For instance, when an operating division becomes aware of an interesting target, it is helpful to engage internal advisers to improve the effectiveness and efficiency of the first transaction steps to be completed.

In most cases, the in-house M&A division is responsible for the coordination of a transaction. This includes, but is not limited to e.g. the design and structuring of a transaction. It creates a certain amount of internal, and above all, external pressure which may ultimately lead to a more efficient transaction process. The external adviser, if engaged, is aware that its client has a clear impression of the services expected and an increased ability to evaluate the efforts made by an external party. This is consistent with the impression we received through the analysis of the survey: Project management, i.e. being in charge of coordinating and monitoring external advisers is perceived as major advantage by corporations.[46] The Corporate Development department then often has an exclusive responsibility for the transaction execution starting from an acquisition intention until the final deal closing. This includes the interaction with targets and their banks for the purpose of negotiating a transaction. In doing so, the operating division, which intends to buy the target, is involved, too, as its industry experts are able to build up a good target relationship. In this respect, industry knowledge is a main competency of the in-house M&A division since e.g. the core products are highly complex as is the evaluation of potential targets.

Furthermore, one purpose of conducting expert interviews was to find out more about the information flows to and from in-house M&A divisions. In particular, we aimed at analysing whether the in-house M&A division reacts upon requests of company units in need for advisory or if own and active ideation takes place. In general, both procedures exist. However, most of the time, transaction ideation is initiated bottom up by the operating divisions whereas a minor part is initiated top down by the Corporate Development division. It is not the in-house M&A division's primary task to actively seek and suggest strategic investments. The operating division typically builds the strategic case around the deal while financial modelling and other rather technical tasks are performed by the Corporate Strategy division. In addition to that, a lot of deal flow comes from Investment Banks, which may suggest transaction possibilities for the company due to their strong network.

[46] See also "Key competencies and responsibilities of in-house M&A divisions" in chapter II for further information.

Although we asked for the specific advantages of engaging external M&A advisers in the survey, it was useful for us to get a detailed impression of the design and arrangement of their collaboration with in-house M&A divisions. Often there is no strict rule for the allocation of distinct competencies. Generally, the internal advisory unit will take up a coordinative role, thus guiding and monitoring the work of Investment Banks. Also, in a transaction process, the in-house M&A division often is the single point of contact for Investment Banks. The external adviser makes suggestions on tactics and takes care of most of the logistics around the deal, i.e. conducting the due diligence, building financial models, compiling presentations etc. Through its in-house M&A division, companies are able to control the quality of the work delivered by external M&A advisers. In chapter II, we already outlined in detail the hypothesis that in-house M&A divisions increase the pressure on and represent the company's high expectations towards the Investment Bank's effort and overall output.[47]

A main advantage of Investment Banks is their larger pool of resources compared to in-house M&A divisions, which might be overwhelmed at a certain time. In addition, an Investment Bank's network and its relationship with potential targets and their shareholders might be an advantage throughout a transaction process. This is in line with the hypothesis that Investment Banks act as an agent, matching potential sellers and buyers, which apparently is only partially substitutable.[48] Furthermore, acquisition targets sometimes employ an Investment Bank for external deal communication. Therefore, it might be useful for acquirers to communicate through an Investment Bank, too.

Another reason is that in a very large or public transaction, boards often insist on engaging Investment Banks to signal a certain amount of diligence and / or to provide a fairness opinion which is also corresponding to deal size.[49] Closely connected to that is the potentially statutory obligation of the

[47] See also "Reasons for and benefits of setting up in-house M&A division" in chapter II for further information.
[48] See also "Reasons for and benefits of setting up in-house M&A division" in chapter II for further information.
[49] See also "Transactions including external advisory"

target company to engage external M&A advisers. The involvement of Investment Banks might also be useful when a company conducts a sale of a division through a tender process. In this case, an external engagement is mainly driven by the increased complexity as well as the large number of external contacts. Moreover, external advisers ensure confidentiality since potential bidders initially do not necessarily know the seller's identity. Hence, main reasons for the engagement of external advisers are increased complexity, size of the deal, confidentiality considerations and a potential requirement by the other party.

Inflexibility with regard to resources dedicated to internal advisory services is a possible drawback, i.e. depending on the projects there are often either too many or not enough human resources. Hence, the eventually necessary capacities could be controlled better if an external adviser was engaged.

4. Employees and recruiting

The most important factor for recruiting is deal experience. This includes not only the absolute amount of closed transactions a candidate accompanied, but also the specific role he or she has played in doing so. It is, for instance, decisive whether an applicant rather acted behind the scenes or actively led negotiations and presented the deal opportunity to the senior management team / board of directors in order to get the approval for a transaction. Hence, it is crucial that he or she acquired project management competence alongside superior negotiation skills. Again, this is in line with the hypothesis we derived throughout the evaluation of the survey, where we explained the strong need for senior employees.[50]

In addition to that, a general knowledge of legal aspects, not necessarily a pure legal educational background, but transaction related legal experience, could be helpful as well. It is essential that the potential candidate has a good understanding of the development potential of different company areas. Prior experience in the same industry is not necessarily a precondition.

[50] See also "Previous work experience of internal M&A advisers" in chapter II for further information.

5. Additional information

One interviewee stated that there is a logical evolution of in-house M&A divisions as companies get larger, which is only slightly correlated to revenue size but more importantly to the company's dependence on non-organic growth. Typically, even very small in-house M&A divisions, which often conduct not only M&A but also work on strategic issues, report to the CEO / CFO. This underlines the importance of such an internal advisory unit. Smaller divisions are mostly centralized since none of the operating divisions is large enough to employ an own in-house M&A divisions. By the time the organisation has become big enough, it makes sense to separate the strategy function from the M&A function. It then might also be beneficial not to centralize the strategy function but to migrate it to every operating division, provided there is sufficient demand for strategic consulting services. An issue arising from this structure is the distribution of competencies among the division and centralized functions.

IV. In-house M&A divisions and transaction announcement returns

1. Objective

Having evaluated the collected data material of our survey and interviews in the previous chapters, we also aimed at connecting our own findings to additional empirical data.

Announcement returns (ARs), which show the impact of acquisition announcements on the acquirer's and target's share price, are generally negative to slightly positive for the acquirer and clearly positive for the target according to recent finance theory (Spyrou & Siougle, 2010). For acquirers, this is mainly due to the uncertainty regarding the target integration, realization of potential synergies as well as the fact that paid premiums are mostly absorbed by target shareholders. For target companies, this is among other reasons due to the anticipation of potential premium payments on the current market value by the acquiring company. The direction and / or relative magnitude of announcement returns on the acquirer's stock price can be interpreted as a very simplistic, but informative proxy for deal quality perceived by the market (Chen et al, 2005, p. 11).

The aim of the following paragraphs is to find out whether the existence of a Corporate Development department has an observable (positive) impact on the acquirer's announcement returns in M&A transactions for our *MSCI World* company sample. This would give more evidence to the hypothesis that in-house M&A divisions create additional value for their companies in M&A processes. The information gained through our survey showed that various competencies and benefits have been assigned to Corporate Development departments by a huge majority of participants. The control and execution as well as the strong focus on a good acquirer-target fit due to superior industry and specific company knowledge justifies the hypothesis that in-house M&A divisions might have a significantly positive effect on announcement returns.

2. Methodology

a) Data generation process

As stated in the introduction of our paper, all survey participants were guaranteed anonymity regarding company specific information. Therefore, the transaction data are only presented in a highly aggregated form not allowing for any inferences about individual companies.

Starting point for the data generation process was the number of survey participants who indicated the year in which their Corporate Development department was founded. This information is ultimately necessary to determine potential differences between announcement returns before and after the Corporate Development department was set up. A total number of 88 companies revealed this information, corresponding to a response rate of 69 %.

Following this, M&A transaction data were obtained for those companies using the *SDC Platinum*[51] and *Thomson ONE Banker*[52] databases. Both databases had to be used complementary since data material was partly missing. This approach did not adversely affect our final evaluation due to the similarity of the respective platforms and database entries, which we carefully reviewed for potential differences and overlaps.

b) Data researched

The collection of data corresponded to a pre-specified scheme included the following search criteria. Every company request was targeted at, if available, all historical M&A transactions. However, the percentage of shares acquired was set to be at least 50 % in order to only include transactions in which a majority stake of the target was acquired.

[51] See also http://thomsonreuters.com/products_services/financial/financial_products/a-z/sdc/ for further information.
[52] See also website of Thomson One Banker: http://banker.thomsonib.com/ for further information.

Furthermore, all deals had to fulfil the completion requirement so that e.g. uncompleted or merely announced deals were excluded from our analysis.

After defining our transaction samples, we extracted stock and index related data from *Datastream*[53] for our sample companies in order to manually compute cumulative abnormal returns (MacKinlay, 1997). Although we also analysed automatically computed announcement returns from the *Eventus* database provided by *Wharton Research Database Services*[54], we had to exclude this event study due to its bias towards US American companies (only information about NYSE, AMEX or NASDAQ listed stocks was available).

The data generated enabled us to calculate five similar, but in terms of reference time slightly different kinds of average ARs over all sample companies. All announcement return measures were adjusted for market movements as to exclude the influence of external factors on the overall stock market as accurately as possible. This was achieved by deducting market returns of the respective local stock indices from the calculated announcement returns (in case of missing data for local stock indices, the performance of the *MSCI World Index* was taken into account)[55]. The first AR measure is the adjusted percentile change between the acquirer closing stock price one trading day before the date of announcement and the acquirer closing stock price one trading day after the date of announcement. Likewise, the other four AR measures take the change in stock prices into account for alternative time frames: *(-1, +2), (-1, +5), (-2, +2), (-5, +5)*. The first (second) entry represents the number of trading days before (after) transaction announcement. This temporal differentiation allowed us to control for under- and / or overreactions of the acquirer's stock price directly after the date of the announcement and to eventually gain a broader view of the market perception of the deal. Finally, the transaction specific

[53] See also website of Thomson Reuters: http://online.thomsonreuters.com/datastream/ for further information.
[54] See also website of Wharton Research: https://wrds-web.wharton.upenn.edu/wrds/ for further information.
[55] For this reason, a local beta-weighting could not be taken into account.

announcement returns were averaged per company for the time period before and after the set-up of the in-house M&A division.

Before proceeding with the empirical results, we point out the limitations of our database study. Due to missing transaction data, either before or after the year of the set-up of the respective in-house M&A division, several companies had to be excluded from the final evaluation. Therefore, a small sample bias may prevail. In addition to that, there may be a deal size bias. It is obvious that larger transactions have a larger effect on announcement returns than smaller transactions since their financial impact on the acquirer is higher. We were not able to control for this bias due to missing deal size information for a considerable number of transactions.

Moreover, Corporate Development departments are well able to execute "under-radar" deals alone, which have none or only a weak impact on a *MSCI World* company's stock price. However, these deals could in sum show distinctly positive value creation for serial acquirers. Those deals often are excluded from transaction databases owing to their seemingly negligible size.

3. Empirical results

Table 3 displays a summary of the empirical results of the announcement return analysis. Each of the five columns represents one of the above introduced announcement return measures, *(-1, +1), (-1, +2), (-1, +5), (-2, +2), (-5, +5)*, and shows ARs for the period *before* and *after* the implementation of an in-house M&A division as well as the difference between them (*delta*). Across all different announcement return measures, 40 observations were taken into account, which corresponds to the final number of companies remaining after the above described adjustments and constraint fulfilments.

	(-1, +1) in %			(-1, +2) in %			(-1, +5) in %			(-2, +2) in %			(-5, +5) in %		
Company	before	after	delta	before	after	delta	before	after	delta	before	after	delta	before	after	delta
1	0.4	0.4	0.0	0.3	0.1	-0.2	0.1	0.1	-0.1	0.5	0.1	-0.4	0.4	0.0	-0.4
2	0.3	-0.2	-0.5	0.3	-0.2	-0.6	0.5	-0.3	-0.8	0.3	-0.1	-0.4	0.8	-0.6	-1.4
3	-0.6	0.4	1.1	1.2	0.6	-0.6	2.9	0.4	-2.5	1.3	0.6	-0.6	1.6	0.4	-1.2
4	0.0	-2.0	-2.0	1.1	-1.8	-2.8	2.8	-1.3	-4.1	1.3	-0.5	-1.7	2.2	1.2	-1.0
5	1.1	2.5	1.5	0.6	0.5	-0.1	1.4	1.8	0.4	1.0	0.8	-0.1	0.9	3.6	2.7
6	-0.2	-0.1	0.1	-0.3	-0.1	0.2	-0.6	-0.4	0.2	-0.2	-0.2	0.0	-0.2	-0.5	-0.3
7	0.2	-0.9	-1.1	0.0	-0.9	-0.9	-0.2	-0.3	-0.1	0.0	-1.0	-1.1	-0.5	0.3	0.8
8	-1.3	-0.6	0.6	-4.4	-1.7	2.7	-3.8	-0.8	3.0	-3.4	-1.5	1.9	-2.5	0.2	2.7
9	-0.5	0.3	0.8	-0.3	-1.0	-0.7	0.4	-1.1	-1.5	-1.3	-2.1	-0.8	-1.4	-5.6	-4.2
10	0.9	-0.2	-1.1	1.0	-0.3	-1.3	1.2	0.1	-1.1	1.0	-0.8	-1.8	1.6	-0.6	-2.3
11	-0.4	-0.8	-0.4	-0.4	-0.8	-0.4	0.4	-3.0	-3.4	-0.4	0.4	0.8	1.4	-0.5	-2.0
12	0.6	0.6	0.0	0.7	0.7	0.0	0.6	0.7	0.0	0.9	0.5	-0.3	0.1	0.3	0.2
13	-0.3	-1.5	-1.2	2.4	-2.2	-4.5	1.5	-1.8	-3.3	0.5	-2.8	-3.3	4.5	-2.9	-7.3
14	-0.7	0.7	1.5	4.0	4.4	0.4	5.0	7.7	2.7	3.9	4.0	0.1	6.8	9.1	2.3
15	-0.3	0.5	0.8	-0.7	0.5	1.2	-1.5	1.9	3.4	-0.8	0.3	1.1	-1.6	2.7	4.3
16	3.0	0.5	-2.5	3.5	0.7	-2.8	4.3	-0.3	-4.5	3.9	0.4	-3.5	4.6	-0.2	-4.9
17	-0.3	-0.6	-0.3	-0.7	0.4	1.1	0.4	0.9	0.5	-0.4	-0.6	-0.3	2.1	-0.7	-2.8
18	0.8	0.3	-0.4	0.8	0.4	-0.4	0.9	0.8	0.0	1.0	0.4	-0.6	0.7	0.5	-0.1
19	-0.1	0.6	0.7	0.1	0.2	0.1	-0.3	0.4	0.7	0.3	0.4	0.1	-0.3	0.3	0.6
20	2.1	-1.5	-3.7	-1.1	4.0	5.1	-0.5	-0.5	0.0	4.4	1.1	-3.3	0.3	5.7	5.4
21	-0.8	0.2	0.9	0.1	0.8	0.7	0.2	1.1	1.0	2.2	0.6	-1.6	3.2	0.6	-2.6
22	-0.9	-4.0	-3.1	-1.0	-1.8	-0.8	0.0	-5.3	-5.3	-1.4	0.4	1.8	-2.3	-1.2	1.0
23	0.8	-1.0	-1.8	0.4	-1.1	-1.4	1.5	-2.1	-3.6	0.7	-1.7	-2.4	2.4	-2.3	-4.8
24	0.7	-0.2	-0.8	1.1	0.2	-1.0	0.9	-0.8	-1.7	1.4	-0.1	-1.4	0.5	-0.4	-0.9
25	0.3	0.0	-0.3	0.3	-0.1	-0.4	1.5	-0.8	-2.3	0.4	0.4	0.0	1.5	-0.6	-2.1
26	0.0	7.2	7.2	0.1	7.2	7.0	-2.4	4.4	6.8	0.5	8.6	8.1	-3.9	-2.9	1.0
27	-6.2	0.1	6.3	-2.4	0.0	2.4	-0.5	1.9	2.4	4.6	-0.1	-4.7	21.7	0.1	-21.6
28	4.7	2.0	-2.6	5.3	1.9	-3.5	0.9	2.9	2.0	6.0	1.7	-4.3	2.0	1.5	-0.4
29	-0.3	0.4	0.7	-0.2	0.5	0.7	1.1	0.8	-0.4	-0.1	0.5	0.6	3.4	0.8	-2.6
30	-0.2	0.5	0.7	-0.1	1.7	1.8	0.9	2.6	1.7	-0.3	1.8	2.1	-1.1	2.1	3.2
31	0.0	0.2	0.2	-0.4	-0.1	0.3	0.3	0.3	0.1	0.0	-0.3	-0.3	0.9	0.2	-0.7
32	-0.3	1.9	2.2	0.5	1.8	1.2	-0.2	1.9	2.2	-0.9	-0.4	0.5	-1.0	4.5	5.5
33	-0.5	-0.3	0.2	-0.3	-0.1	0.2	0.9	0.7	-0.2	-0.3	0.5	0.8	0.7	1.6	0.9
34	1.3	-0.1	-1.4	1.4	-0.2	-1.6	2.4	-2.4	-4.8	0.6	-0.2	-0.7	1.7	-2.6	-4.3
35	-0.3	-0.8	-0.5	0.3	-0.6	-0.9	1.2	-1.3	-2.5	0.0	-1.2	-1.2	-1.7	-2.6	-0.9
36	-0.5	0.1	0.5	-0.2	-0.2	0.1	-0.1	-0.4	-0.3	-0.3	-0.1	0.2	-0.6	0.2	0.8
37	-1.0	4.3	5.3	-1.5	2.1	3.6	-4.4	1.1	5.5	-0.5	3.6	4.1	-3.5	3.0	6.5
38	0.6	-0.8	-1.4	-0.9	0.4	1.4	0.2	-1.8	-2.0	-1.9	1.2	3.1	-1.1	-0.3	0.7
39	-1.2	-0.4	0.8	-1.1	-0.6	0.5	-2.5	-0.5	2.0	-0.8	0.4	1.2	-4.5	-0.1	4.5
40	0.2	-0.9	-1.1	0.5	-1.6	-2.1	0.1	-2.3	-2.4	0.7	-1.6	-2.3	1.2	-1.9	-3.1
MEAN	0.0	0.2	0.1	0.3	0.3	0.1	0.4	0.1	-0.3	0.6	0.3	-0.3	1.0	0.3	-0.7
MEDIAN	-0.1	0.0	0.0	0.1	0.0	-0.1	0.4	-0.1	-0.1	0.3	0.3	-0.3	0.7	0.1	-0.4
SD	1.5	1.7	2.2	1.6	1.8	2.1	1.8	2.2	2.7	1.8	1.9	2.3	4.1	2.5	4.6

Table 3: Cumulative abnormal returns before and after the implementation of in-house M&A divisions on a company basis

Table 3 reveals that some announcement returns are higher in the period of time after the set up of a Corporate Development department; however, this is not valid throughout all observations. The *(-1, +1)* AR measure indicates a median of differences of 0.0 percentage points (the difference in medians is 0.1 percentage points)[56] and a mean of -0.1 percentage points. The computations reveal a median of differences in *before* and *after* announcement returns of 0.1, -0.3, -0.3 and -0.7 percentage points for the

[56] The difference in medians is not the median of differences indicated in the table.

(-1, +2), (-1, +5), (-2, +2), (-5, +5) AR measure. The standard deviations for the difference in *before* and *after* ARs range from 1.5 % to 4.6 %.

The computed medians and means of the differences in ARs for different time periods do not support our initial assumption of an observable positive effect of in-house M&A divisions on AR magnitude or direction after their inception. After conducting two-sample t-tests for equal or unequal variances (depending on the outcomes of previously conducted two-sample F-tests for variances), the two-tail p-values, which all are clearly above 0.05,[57] let us consistently maintain the null hypothesis (on the 95 % confidence level), which is that there is no significant difference between both time-periods. Due to the inconsistency of algebraic signs in the *deltas* of the different AR measures, the one-tailed t-tests stated in the appendix have limited explanatory power. We cannot derive that *after* ARs are significantly higher than *before* ARs in general (on the 95 % confidence level).

	(-1, +1) in %			(-1, +2) in %			(-1, +5) in %			(-2, +2) in %			(-5, +5) in %		
	before	after	delta	before	after	delta	before	after	delta	before	after	delta	before	after	delta
MEAN	0.2	0.0	-0.2	0.3	0.1	-0.3	0.5	0.1	-0.4	0.5	0.1	-0.3	0.5	0.2	-0.3
MEDIAN	0.0	0.0	0.0	0.1	0.0	-0.1	0.2	0.1	-0.1	0.1	0.0	-0.1	0.3	0.1	-0.2
SD	3.1	3.2	0.1	3.7	3.7	-0.1	4.9	4.8	-0.1	4.3	4.1	-0.2	6.1	5.9	-0.2
OBSERVATIONS	718	1431	n.m.	718	1431	n.m.	718	1431	n.m.	718	1431	n.m.	717	1431	n.m.

Table 4: Cumulative abnormal returns before and after the implementation of in-house M&A divisions on a deal basis

The above displayed ARs were calculated on a company basis, which means that an average for before and after ARs was built per company according to the respective deal deal information available. Since this procedure lead to a limited overall number of observations (40 company averages as shown above), we decided to follow an additional approach with ARs aggregated and averaged over all companies according to the before and after criterion. Thus, the final number of observations arose to more than 700 and 1400 for before and after deals.[58]

[57] See also "Regressions" in the appendix for further information.

[58] Here, the computed delta of means, medians and standard deviations is not the mean, median or standard deviation of the delta respectively.

Again, we have to maintain the null hypothesis, which is that there is no significant difference in means (on the 95 % confidence interval) after conducting two-sample t-tests for equal or unequal variances. The results of the one-tailed t-tests do not deliver a consistent picture in this context and are therefore not further taken into account.

It follows from our observations that the market for M&A advisory seems to be efficient and the *superior deal hypothesis* applies rather than the *deal completion hypothesis*.[59] In our small sample, deals conducted in the presence of in-house M&A divisions do not show excess announcement returns over deals conducted without their presence, notwithstanding the potential of in-house M&A divisions to successfully substitute and / or support services offered by outside parties. This is slight empirical evidence for an equality in the quality of and value creation through M&A advisory services regardless whether they are provided internally, externally or complementary by the companies themselves and Investment Banks. Furthermore, the potentially large number of "under-radar" deals, which may be underrepresented in our transaction data and normally do not have observable impacts on stock prices, has to be taken into consideration for the *MSCI World* sample companies. Those deals, which are easier to guide and execute than large corporate transactions for internal advisers, in fact may cumulatively have positive influence on medium- and long-term stock prices and reflect the value generation potential of in-house M&A divisions. Besides the above outlined comparison between before and after ARs, we also explored factors associated with internal advisory units, which could explain the magnitude of after announcement returns. Building on the collected empirical data, several factors, e.g. the seniority of employees (fraction of employees with more than two years of previous work experience), the internal adviser headcount, number of competencies or benefits of Corporate Development departments, would be qualified for a multivariate regression.[60] As we wanted to obtain a broader picture of our empirical data, a number of 1-2 was assigned a weight of one for the number

[59] See also chapter II for further information.

[60] We emphasise that the in-house M&A division characteristics taken as explanatory variables were assumed to be constant over the whole after time period, which can of course only be an approximation.

of competencies variable (accordingly, a number of 0, 3-4, 5-6 and 7-8 were assigned a weight of zero, two, three and four, respectively). The number of benefits variable was categorized equivalently with weights of zero to three.

For the company-based AR measures (results displayed in table 5), this combined approach reduced the total observations to an insufficient number since most of the respondents did not check all questions. We were not able to univariately demonstrate a significant positive correlation (on the 95 % confidence level) between the number of benefits of in-house M&A divisions and the different AR measures with coefficients ranging from 0.11 to 1.06. [61]

For the deal-based AR measures, the multivariate regressions including all four above outlined explaining variables led to very small, both negative and positive coefficients. Since the chosen variables were all assumed to be positively correlated with the magnitude of ARs, the regressions provide rather low insight.[62]

[61] See also "Hypothesis testing" in the appendix for further information.
[62] See also "Regressions" in the appendix for further information.

Company	Announcement returns after the implementation of in-house M&A divisions					Number of reasons
	(-1, +1) in %	(-1, +2) in %	(-1, +5) in %	(-2, +2) in %	(-5, +5) in %	
1	0.4	0.1	0.1	0.1	0.0	2
2	-0.2	-0.2	-0.3	-0.1	-0.6	2
3	0.4	0.6	0.4	0.6	0.4	2
4	-2.0	-1.8	-1.3	-0.5	1.2	2
5	2.5	0.5	1.8	0.8	3.6	3
6	-0.1	-0.1	-0.4	-0.2	-0.5	2
7	-0.9	-0.9	-0.3	-1.0	0.3	1
8	-0.6	-1.7	-0.8	-1.5	0.2	2
9	0.3	-1.0	-1.1	-2.1	-5.6	1
10	-0.2	-0.3	0.1	-0.8	-0.6	2
11	-0.8	-0.8	-3.0	0.4	-0.5	2
12	0.6	0.7	0.7	0.5	0.3	1
13	-1.5	-2.2	-1.8	-2.8	-2.9	2
14	0.7	4.4	7.7	4.0	9.1	2
15	0.5	0.5	1.9	0.3	2.7	1
16	0.5	0.7	-0.3	0.4	-0.2	1
17	-0.6	0.4	0.9	-0.6	-0.7	2
18	0.3	0.4	0.8	0.4	0.5	1
19	0.6	0.2	0.4	0.4	0.3	2
20	-1.5	4.0	-0.5	1.1	5.7	1
21	0.2	0.8	1.1	0.6	0.6	2
22	-4.0	-1.8	-5.3	0.4	-1.2	2
23	-1.0	-1.1	-2.1	-1.7	-2.3	2
24	-0.2	0.2	-0.8	-0.1	-0.4	1
25	0.0	-0.1	-0.8	0.4	-0.6	2
26	7.2	7.2	4.4	8.6	-2.9	1
27	0.1	0.0	1.9	-0.1	0.1	1
28	2.0	1.9	2.9	1.7	1.5	1
29	0.4	0.5	0.8	0.5	0.8	2
30	0.5	1.7	2.6	1.8	2.1	3
31	0.2	-0.1	0.3	-0.3	0.2	1
32	1.9	1.8	1.9	-0.4	4.5	2
33	-0.3	-0.1	0.7	0.5	1.6	2
34	-0.1	-0.2	-2.4	-0.2	-2.6	1
35	-0.8	-0.6	-1.3	-1.2	-2.6	1
36	0.1	-0.2	-0.4	-0.1	0.2	1
37	4.3	2.1	1.1	3.6	3.0	3
38	-0.8	0.4	-1.8	1.2	-0.3	2
39	-0.4	-0.6	-0.5	0.4	-0.1	1
40	-0.9	-1.6	-2.3	-1.6	-1.9	2

MEAN	0.2	0.3	0.1	0.3	0.3	1.7
MEDIAN	0.0	0.0	-0.1	0.3	0.1	2.0
SD	1.7	1.8	2.2	1.9	2.5	0.6

Table 5: Number of benefits of in-house M&A divisions and company-based AR measures

V. Conclusion

1. Summary and implications

In order to analyse the characteristics of in-house M&A divisions and their value creation potential, we followed a threefold approach. The online surveys on *MSCI World* companies and *ARFA* members, in which we achieved a response rate of 10 % and 25 % respectively, allowed us to get a broad impression of distinctive aspects and various dimensions of internal advisory units. The expert interviews were complementary conducted to confirm or question certain impressions, as well as to receive more detailed insights into company-specific processes and structures. Furthermore, a study extension, aimed at investigating in-house M&A divisions' impact on acquirer stock prices after transaction announcements, was performed.

Main reasons that led to the foundation of in-house M&A divisions are deeper industry knowledge and a better company specific M&A expertise. Most of the divisions are in charge of project management, and we infer that they have a monitoring and coordinative role in case of external adviser engagement; although we learnt that there often is no strict general rule on task allocation. This coordinative role increases pressure on Investment Banks and enables the client to adequately assess their performance. Besides that, Corporate Development departments seem capable of fully substituting Investment Banks, as indicated by the large percentage of smaller deals which are completed without external advice as well as the high number of responsibilities those departments are in charge of.

Key responsibilities include, but are not limited to, project management, company valuation, direct negotiation with counterparties and profitability studies. Notwithstanding their large responsibilities, there remains the need for Investment Banking advice, particularly in large transactions. In fact, we found diverse reasons for this external engagement. Besides sufficient and flexible resources – an evident characteristic of external advisers – the network to potential buyers and targets is crucial. This is in line with academic theories, describing the agent function of Investment Banks, which are able to reduce informational asymmetries between target and acquiring firms. Furthermore, outside perspective is a frequently stated reason that logically forms the positive contrast to deep industry and specific company knowledge of Corporate Development departments. However, the department has limited responsibility to actively seek for new deal opportunities; it rather acts on request of the operational divisions which tend to build the strategic framework around a transaction.

As far as the employee composition is concerned, we outlined that company internal work experience is most common, followed by work experience in Investment Banking and other financial services. Complementary to that, we found that most in-house M&A divisions hired employees from at least three different industrial backgrounds, which gives further evidence for the variety of tasks to be performed. Furthermore, the large percentage of employees with five or more years of prior work experience demonstrates that seniority is an important criterion in running the division.

To assess the value creation potential of in-house M&A divisions, we formulated the hypothesis that cumulative abnormal announcement returns – a measure for perceived deal quality – is different before and after the implementation of the division. On the basis of our empirical data we find that there is no significant difference in CARs. As explained, it can be inferred that the market for M&A advisory is efficient and the *superior deal hypothesis* applies rather than the *deal completion hypothesis*. However, the results potentially do underestimate the positive effect of "under-radar" deals, as they are often not listed in databases and only have a limited effect on stock movements upon transaction announcement. Hence, CARs are most likely the best approximation, but not fully sufficient for assessing the excess value creation potential of in-house M&A divisions. Also, a regression analysis was conducted for determining influencing factors on abnormal acquirer stock returns. In an univariate analysis, we do not find a significant positive correlation (on the 95 % confidence level) between the number of benefits of in-house M&A divisions and the different AR measures.

The reasons for setting up and responsibilities of in-house M&A divisions alongside the employment scheme suggest a high importance and status within the companies. As all empirical studies, our paper has some limitations, most notably due to partly insufficient data. For many computations, we therefore had to use smaller subsets of our sample extracted from the *MSCI World* company population. Hence, we cannot be certain whether the results shown for parts of the sample also hold for the whole sample or even all *MSCI World* companies operating an in-house M&A division.

2. Recommendations for further research

It was our intention to cover the topic of this paper as comprehensively as possible. Nevertheless, there are several areas of research which can be extended or additionally introduced. This is mainly due to the limited scope of this paper as well as the unavailability or incompleteness of data we faced in our analyses.

With regard to the online survey, which we conducted with CFOs and Heads of Corporate Development of *MSCI World* companies, it would be desirable to not only expand the range of questions, but also to increase the sophistication of the extracted information. However, this might be difficult given the limited amount of time of participating executives as well as their unwillingness to disclose potentially confidential information within a rather unfamiliar online survey. Therefore, more personal contacts to senior executives, who are in charge of in-house M&A advisory and / or Corporate Development, could be helpful to gain insights on an individual level.

Moreover, future research should especially focus on the cooperation with external advisers as well as receiving more complete transaction data related to closed acquisitions and divestitures. It would be particularly interesting to obtain additional information about "under-radar" deals, as they are seldomly stored in transaction databases. Here, it might be informative to look at the respective fractions of value creative and value destructive deals complementary to the computation of average ARs for the period before and after the introduction of a Corporate Development department for each company. Transactions with a positive (negative) AR algebraic sign could simplistically be marked as positive (negative) deals and thus represent a binary variable. In order to avoid a deal sample bias, the number of transactions before the introduction of an in-houses M&A division should approximately be in line with the number of transaction after the introduction of an in-house M&A division, which was not the case for our sample.

In the context of announcement returns, it would also be enlightening to analyse abnormal target stock price returns after transaction announcements before and after the implementation of an in-house M&A division. A potential hypothesis could be that in-house M&A divisions lead to a reduction in transaction premiums and thus lower target announcement returns. Since most transactions for the *MSCI World* sample targeted at private companies, our research in this direction did not lead to informative outcomes.

Besides the above recommendations, an advisory fee analysis for the relevant company transactions could be insightful. Transaction fee data can usually be extracted from *SDC Platinum*; however, those were only rarely available for our specific survey sample. The purpose of this research extension would be to demonstrate a potential link between the existence of a Corporate Development department and the amount of fees paid to external advisers in case of engagement. The initial hypothesis would be that companies operating an internal advisory unit may be able to enforce a decrease in transaction payments to outside parties due to their stronger negotiating power as well as the partial substitution of external services.

In addition to the outlined suggestions for further investigation, we encourage all readers to add supplementary research ideas to our paper.

VI. Appendix

1. Online survey on in-house M&A divisions

Thank you for taking the survey, which lasts approximately 10 MINUTES. All answers are OPTIONAL; however, we would appreciate to receive as complete information as possible. Throughout the survey, it is POSSIBLE TO GO BACK to preceding questions. ANONYMITY IS GUARANTEED through a highly aggregated data analysis, which does not reveal company specific information.

Q1 Does your company have an in-house M&A division / Corporate Development department which focuses on external growth by acquiring other businesses and firms?

- ❍ Yes
- ❍ No

(if *No* is selected, skip to start of ALTERNATIVE LOOP at the end of the survey)

-> STANDARD LOOP FOR ALL SURVEY PARTICIPANTS WHO CHECKED ANSWER “YES” IN THE FIRST QUESTION:

Q2 What are the main tasks and key competencies of your in-house M&A division / Corporate Development department?

- ❑ Project management (coordination of external advisers, documentation etc.)
- ❑ Deal sourcing
- ❑ Financial Due Diligence
- ❑ Profitability study (business plan including synergies and integration costs etc.)
- ❑ Company valuation
- ❑ Direct negotiation with counterparties
- ❑ Post Merger Integration
- ❑ Other

Q3 Please specify the main tasks and key competencies of your in-house M&A division / Corporate Development department.

____

Q4 What were the reasons for or benefits of setting up an in-house M&A division / Corporate Development department?

- ❑ Cost savings
- ❑ Avoidance of conflicts of interests faced by Investment Banks / external M&A advisers
- ❑ More specific industry knowledge and better M&A expertise
- ❑ More customized advisory services
- ❑ Monitoring and evaluation of services provided by Investment Banks / external M&A advisers
- ❑ Other

Q5 Please specify the reasons for / benefits of setting up an in-house M&A division / Corporate Development department.

____

Q6 What are the main reasons for or benefits of mandating Investment Banks / external M&A advisers?

- ❑ Securing success of M&A transactions (e.g. for shareholders / other stakeholders)
- ❑ Reputation of top-tier Investment Banks / external M&A advisers
- ❑ Industry knowledge
- ❑ Outside perspective
- ❑ Network (potential targets & buyers)
- ❑ Sufficient resources compared to limited in-house capacities
- ❑ Other

Q7 Please specify the main reasons for or benefits of mandating Investment Banks / external M&A advisers. How can those parties add value from your perspective?

____

Q8 Please specify the current headcount of your in-house M&A division / Corporate Development department.

_____ Current Headcount

Q9 Please roughly indicate the allocation of your employees' previous work experience in your in-house M&A division / Corporate Development department. (Be aware that "Total" should be equal to 100 %)

_____ Investment Banking
_____ Other Financial Services (e.g. Audit, Transaction Advisory etc.)
_____ Private Equity
_____ Strategy Consulting
_____ In-house work experience
_____ Other
_____ No previous work experience

Q10 Please roughly classify the employees according to the length of their work experience in the respective industry. (Be aware that the percentages stated for each industry add up to 100 %)

	Investment Banking	Other Financial Services	Private Equity	Strategy Consulting	Inhouse work experience	Other
< 2 years 2 - 5 years > 5 years						

Q11 Please indicate when your in-house M&A division / Corporate Development department was set up?

_____ Year

Q12 Is your in-house M&A division / Corporate Development department organised as separate profit centre? If yes, what was the average revenue in the last three years of your M&A in-house division?

- ❍ < 1 m USD
- ❍ 1 m USD - 10 m USD
- ❍ > 10 m USD
- ❍ It is not organised as a separate profit centre.

Q13 For how many potential M&A target firms has your company made offers from 2008 to 2010? Please note that the acquired stake has to be larger than 50 %.

	Cumulative number from 2008 to 2010
Deal value less than 100 m USD	
Deal value between 100 m USD and 1 bn USD	
Deal value more than 1 bn USD	

Q14 How many M&A transactions were finally signed from 2008 to 2010? Please note that the acquired stake has to be larger than 50 %.

	Cumulative number from 2008 to 2010
Deal value less than 100 m USD	
Deal value between 100 m USD and 1 bn USD	
Deal value more than 1 bn USD	

Q15 What was the PERCENTAGE of M&A transactions which took place WITHOUT Investment Banks / external M&A advisers in each category? (The range is from 0 % to 100 %)

_____ Deal value less than 100 m USD

_____ Deal value between 100 m USD and 1 bn USD

_____ Deal value more than 1 bn USD

Q16 How many DIVESTITURES have been completed from 2008 to 2010?

	Cumulative number from 2008 to 2010
Deal value less than 100 m USD	
Deal value between 100 m USD and 1 bn USD	
Deal value more than 1 bn USD	

Q17 What was the PERCENTAGE of DIVESTITURES which took place WITHOUT Investment Banks / external M&A advisers in each category? (The range is from 0 % to 100 %)

_____ Deal value less than 100 m USD

_____ Deal value between 100 m USD and 1 bn USD

_____ Deal value more than 1 bn USD

Q18 How many different Investment Banks / external M&A advisers did your company engage for your transactions from 2008 to 2010?

	Number of Investment Banks/external M&A advisors
For MERGERS & ACQUISITIONS	
For DIVESTITURES	

Q19 In which industry is your company operating in?

(A selection of answer choices was presented to the respondents)

Q20 On average, what was the approximate OVERALL HEADCOUNT OF YOUR COMPANY in the last years?

- < 10,000
- 10,000 - 100,000
- 100,000 - 200,000
- > 200,000

Q21 What was the approximate OVERALL REVENUE (in bn USD without decimals) of your company in 2010?

Q22 Please indicate the location of your company's headquarter.

(A selection of answer choices was presented to the respondents)

Q23 Please indicate the name of your company.

Q24 Is there any additional information you would like to share with us which could be helpful for our research?

(skip to the end of the survey)

-> ALTERNATIVE LOOP FOR ALL SURVEY PARTICIPANTS WHO CHECKED ANSWER “NO” IN THE FIRST QUESTION:

Q2 Please indicate your future plans regarding an in-house M&A division / Corporate Development department.

- ❍ We are currently about to set up such a division.
- ❍ In the long term, we plan to set up such a division.
- ❍ We are not planning to set up such a division in the future.

(if *We are not planning to set up such a division in the future* is selected, skip to question 7)

Q3 What will be the main tasks and key competencies of your in-house M&A division / Corporate Development department in the future?

- ❑ Project management (coordination of external advisers, documentation etc.)
- ❑ Deal Sourcing
- ❑ Financial Due Diligence
- ❑ Profitability study (business plan including synergies and integration costs etc.)
- ❑ Company Valuation
- ❑ Direct negotiation with counterparties
- ❑ Post Merger Integration
- ❑ Other

Q4 Please specify the main tasks and key competencies of your in-house M&A division / Corporate Development department in the future.

____

Q5 What are the reasons for or benefits of setting up an in-house M&A division / Corporate Development department in the future?

- ❑ Cost savings
- ❑ Avoidance of conflicts of interests faced by Investment Banks / external M&A advisers
- ❑ More specific industry knowledge and better M&A expertise
- ❑ More customized advisory services
- ❑ Monitoring and evaluation of services provided by Investment Banks / external M&A advisers
- ❑ Other

Q6 Please specify the reasons for setting up an in-house M&A division / Corporate Development department in the future.

____

Q7 What are the main reasons for or benefits of mandating Investment Banks / external M&A advisers?

- ❑ Securing success of M&A transactions (e.g. for shareholders / other stakeholders)
- ❑ Reputation of top-tier Investment Banks / external M&A advisers
- ❑ Industry knowledge
- ❑ Outside perspective
- ❑ Network (potential targets & buyers)
- ❑ Sufficient resources compared to limited in-house capacities
- ❑ Other

Q8 Please specify the main reasons for or benefits of mandating Investment Banks / external M&A advisers.

____

Thank you for taking the survey. Should you have further inquiries regarding the project, please do not hesitate to contact us.

2. Guideline for expert interviews

Organisation and administration

1. Is your in-house M&A division exclusively concerned with tasks related to M&A / divestitures or is it part of a larger Corporate Development department also dealing with other topics?
2. Please provide us with an organisational chart and / or briefly outline the hierarchical structure within your in-house M&A division.
3. Is your in-house M&A department in charge of all company business lines or are there different subdivisions / specialist teams?
4. To which persons / positions does your in-house M&A division report? Can it be considered as executive department?

Competencies and responsibilities

1. What are the most important advantages of an in-house division? Where do you see concrete benefits and how would you quantify them?
2. Please quickly describe the competencies and responsibilities of your in-house M&A divisions. Did those change or develop further since its foundation?
3. Does the in-house M&A division react upon request of company units in need for advisory or does own and active ideation take place?
4. Do you regularly engage external M&A advisers, and if yes, for what reasons? How does the collaboration between your in-house division and external transaction advisers look like? When working jointly with outside parties like Investment Banks, what are the exact differences compared to transactions which are solely accompanied by in-house M&A divisions?
5. How would the processes for an M&A transaction or divestiture typically look like in your company?
6. Are there any plans for future improvement or development and what areas of your in-house M&A division will be affected?

Employees and recruiting

7. What are the job requirements / applicant qualifications for employees in your department and how does recruiting concretely take place?

Additional information

8. Is there any other information you would like to share with us?

3. Statistical evaluations

a) Regressions

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.6529
R Square	0.4262
Adjusted R Squa	0.4064
Standard Error	2.2593
Observations	31

ANOVA

	df	SS	MS	F	Significance F
Regression	1	109.9654	109.9654	21.5422	0.0001
Residual	29	148.0346	5.1046		
Total	30	258.0000			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	1.0267	0.5877	1.7469	0.0912	-0.1754	2.2287	-0.1754	2.2287
X Variable 1	1.4565	0.3138	4.6414	0.0001	0.8147	2.0983	0.8147	2.0983

Table 6: Linear regression (y = number of in-house M&A division foundations; x = global M&A volume)

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.0036
R Square	0.0000
Adjusted R Square	-0.0143
Standard Error	0.9745
Observations	72

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.0008	0.0008	0.0009	0.9763
Residual	70	66.4699	0.9496		
Total	71	66.4708			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	0.7375	0.1561	4.7229	0.0000	0.4260	1.0489	0.4260	1.0489
X Variable 1	0.0003	0.0117	0.0298	0.9763	-0.0229	0.0236	-0.0229	0.0236

Table 7: Linear regression (y = adjusted external adviser turnover; x = in-house adviser headcount)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.0362
R Square	0.0013
Adjusted R Square	-0.0126
Standard Error	0.9646
Observations	74

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.0879	0.0879	0.0945	0.7594
Residual	72	66.9926	0.9305		
Total	73	67.0806			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0.7545	0.1457	5.1795	0.0000	0.4641	1.0449	0.4641	1.0449
X Variable 1	-0.1485	0.4833	-0.3074	0.7594	-1.1119	0.8148	-1.1119	0.8148

Table 8: Linear regression (y = adjusted external adviser turnover; x = fraction of IB pre-experienced employees)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0,0402
R Square	0,0016
Adjusted R Square	-0,0247
Standard Error	1,7530
Observations	40

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,1892	0,1892	0,0616	0,8054
Residual	38	116,7791	3,0731		
Total	39	116,9682			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-0,0148	0,8126	-0,0182	0,9856	-1,6599	1,6303	-1,6599	1,6303
X Variable 1	0,1132	0,4561	0,2481	0,8054	-0,8101	1,0364	-0,8101	1,0364

Table 9: Linear regression (y = company-based (-1, +1) AR measure; x = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0,0739
R Square	0,0055
Adjusted R Square	-0,0207
Standard Error	1,7804
Observations	40

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,6611	0,6611	0,2086	0,6505
Residual	38	120,4496	3,1697		
Total	39	121,1107			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0,6931	0,8253	0,8398	0,4063	-0,9777	2,3638	-0,9777	2,3638
X Variable 1	-0,2115	0,4632	-0,4567	0,6505	-1,1492	0,7261	-1,1492	0,7261

Table 10: Linear regression (y = company-based (-1, +2) AR measure; x = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0,0323
R Square	0,0010
Adjusted R Square	-0,0252
Standard Error	2,1804
Observations	40

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,1889	0,1889	0,0397	0,8431
Residual	38	180,6567	4,7541		
Total	39	180,8456			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-0,0592	1,0107	-0,0585	0,9536	-2,1053	1,9870	-2,1053	1,9870
X Variable 1	0,1131	0,5672	0,1993	0,8431	-1,0353	1,2614	-1,0353	1,2614

Table 11: Linear regression (y = company-based (-1, +5) AR measure; x = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,0527
R Square	0,0028
Adjusted R Square	-0,0235
Standard Error	1,8815
Observations	40

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0,3751	0,3751	0,1059	0,7466
Residual	38	134,5237	3,5401		
Total	39	134,8988			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	0,0706	0,8722	0,0809	0,9359	-1,6951	1,8362	-1,6951	1,8362
X Variable 1	0,1593	0,4895	0,3255	0,7466	-0,8316	1,1502	-0,8316	1,1502

Table 12: Linear regression (y = company-based (-2, +2) AR measure; x = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,2580
R Square	0,0666
Adjusted R Square	0,0420
Standard Error	2,4736
Observations	40

ANOVA

	df	SS	MS	F	Significance F
Regression	1	16,5790	16,5790	2,7095	0,1080
Residual	38	232,5168	6,1189		
Total	39	249,0958			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	-1,4668	1,1467	-1,2792	0,2086	-3,7881	0,8545	-3,7881	0,8545
X Variable 1	1,0593	0,6435	1,6461	0,1080	-0,2435	2,3621	-0,2435	2,3621

Table 13: Linear regression (y = company-based (-5, +5) AR measure; x = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	

Regression Statistics	
Multiple R	0.0513
R Square	0.0026
Adjusted R Square	-0.0010
Standard Error	0.0305
Observations	1098

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.0027	0.0007	0.7200	0.5783
Residual	1093	1.0188	0.0009		
Total	1097	1.0215			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-0.0044	0.0058	-0.7603	0.4473	-0.0158	0.0070	-0.0158	0.0070
X Variable 1	0.0000	0.0000	-0.1945	0.8458	-0.0001	0.0000	-0.0001	0.0000
X Variable 2	0.0000	0.0002	0.1991	0.8422	-0.0004	0.0004	-0.0004	0.0004
X Variable 3	0.0019	0.0014	1.3831	0.1669	-0.0008	0.0047	-0.0008	0.0047
X Variable 4	-0.0007	0.0022	-0.3179	0.7506	-0.0050	0.0036	-0.0050	0.0036

Table 14: Linear regression (y = deal-based (-1, +1) AR measure; x1 = seniority; x2 = internal advisor headcount; x3 = number of competencies; x4 = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	

Regression Statistics	
Multiple R	0.0808
R Square	0.0065
Adjusted R Square	0.0029
Standard Error	0.0333
Observations	1098

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.0079	0.0020	1.7938	0.1278
Residual	1093	1.2095	0.0011		
Total	1097	1.2174			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0.0003	0.0063	0.0453	0.9639	-0.0121	0.0127	-0.0121	0.0127
X Variable 1	0.0000	0.0000	-1.0438	0.2968	-0.0001	0.0000	-0.0001	0.0000
X Variable 2	-0.0001	0.0002	-0.4973	0.6191	-0.0005	0.0003	-0.0005	0.0003
X Variable 3	0.0034	0.0015	2.2131	0.0271	0.0004	0.0064	0.0004	0.0064
X Variable 4	-0.0033	0.0024	-1.3827	0.1670	-0.0080	0.0014	-0.0080	0.0014

Table 15: Linear regression (y = deal-based (-1, +2) AR measure; x1 = seniority; x2 = internal advisor headcount; x3 = number of competencies; x4 = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.0761
R Square	0.0058
Adjusted R Square	0.0022
Standard Error	0.0448
Observations	1098

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.0128	0.0032	1.5929	0.1739
Residual	1093	2.1930	0.0020		
Total	1097	2.2058			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0.0104	0.0085	1.2256	0.2206	-0.0063	0.0271	-0.0063	0.0271
X Variable 1	-0.0001	0.0000	-1.2709	0.2040	-0.0001	0.0000	-0.0001	0.0000
X Variable 2	-0.0001	0.0003	-0.4311	0.6665	-0.0007	0.0005	-0.0007	0.0005
X Variable 3	0.0026	0.0021	1.2745	0.2028	-0.0014	0.0067	-0.0014	0.0067
X Variable 4	-0.0069	0.0032	-2.1517	0.0316	-0.0132	-0.0006	-0.0132	-0.0006

Table 16: Linear regression (y = deal-based (-1, +5) AR measure; x1 = seniority; x2 = internal advisor headcount; x3 = number of competencies; x4 = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.0500
R Square	0.0025
Adjusted R Square	-0.0012
Standard Error	0.0374
Observations	1098

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.0038	0.0010	0.6838	0.6032
Residual	1093	1.5259	0.0014		
Total	1097	1.5297			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-0.0042	0.0071	-0.5881	0.5566	-0.0181	0.0097	-0.0181	0.0097
X Variable 1	0.0000	0.0000	-0.0048	0.9962	-0.0001	0.0001	-0.0001	0.0001
X Variable 2	0.0001	0.0002	0.5571	0.5776	-0.0003	0.0006	-0.0003	0.0006
X Variable 3	0.0019	0.0017	1.1291	0.2591	-0.0014	0.0053	-0.0014	0.0053
X Variable 4	-0.0001	0.0027	-0.0426	0.9660	-0.0054	0.0051	-0.0054	0.0051

Table 17: Linear regression (y = deal-based (-2, +2) AR measure; x1 = seniority; x2 = internal advisor headcount; x3 = number of competencies; x4 = number of benefits of in-house M&A divisions)

SUMMARY OUTPUT	

Regression Statistics	
Multiple R	0.0734
R Square	0.0054
Adjusted R Square	0.0017
Standard Error	0.0571
Observations	1098

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.0193	0.0048	1.4783	0.2065
Residual	1093	3.5678	0.0033		
Total	1097	3.5871			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0.0196	0.0108	1.8105	0.0705	-0.0016	0.0409	-0.0016	0.0409
X Variable 1	-0.0001	0.0001	-1.5757	0.1154	-0.0002	0.0000	-0.0002	0.0000
X Variable 2	0.0000	0.0004	0.1150	0.9085	-0.0007	0.0008	-0.0007	0.0008
X Variable 3	0.0005	0.0026	0.1831	0.8547	-0.0047	0.0056	-0.0047	0.0056
X Variable 4	-0.0077	0.0041	-1.8854	0.0596	-0.0157	0.0003	-0.0157	0.0003

Table 18: Linear regression (y = deal-based (-5, +5) AR measure; x1 = seniority; x2 = internal advisor headcount; x3 = number of competencies; x4 = number of benefits of in-house M&A divisions)

b) Hypothesis testing

F-Test: Two-Sample for Variances	*before*	*after*
Mean	0.3523	0.4569
Variance	0.1451	0.1240
Observations	29	29
df	28	28
F	1.1701	
P(F<=f) one-tail	0.3403	
F Critical one-tail	1.8821	

t-Test: Two-Sample Assuming Equal Variances	*before*	*after*
Mean	0.3523	0.4569
Variance	0.1451	0.1240
Observations	29	29
Pooled Variance	0.1345	
Hypothesized Mean Difference	0.1345	
df	56	
t Stat	-1.0853	
P(T<=t) one-tail	0.1412	
t Critical one-tail	1.6725	
P(T<=t) two-tail	0.2824	
t Critical two-tail	2.0032	

Descriptive Statistics	*Difference between after and before*
Mean	0.1045
Standard Error	0.0835
Median	0.1316
Mode	0
Standard Deviation	0.4499
Sample Variance	0.2024
Kurtosis	0.7460
Skewness	-0.1830
Range	2.0000
Minimum	-1.0000
Maximum	1.0000
Sum	3.0319
Count	29
Confidence Level (95.0 %)	0.1711

Table 19: Statistical evaluation of external M&A adviser tiers before and after the implementation of in-house M&A divisions

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0330	0.1748
Variance	2.2554	2.9992
Observations	40	40
df	39	39
F	0.7520	
P(F<=f) one-tail	0.1887	
F Critical one-tail	0.5867	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.0330	0.1748
Variance	2.2554	2.9992
Observations	40	40
Pooled Variance	2.6273	
Hypothesized Mean Difference	0	
df	78	
t Stat	-0.3913	
P(T<=t) one-tail	0.3483	
t Critical one-tail	1.6646	
P(T<=t) two-tail	0.6967	
t Critical two-tail	1.9908	

Descriptive Statistics	
	Difference between after and before
Mean	0.1418
Standard Error	0.3474
Median	0.0122
Mode	#NV
Standard Deviation	2.1972
Sample Variance	4.8275
Kurtosis	3.3223
Skewness	1.4547
Range	10.8481
Minimum	-3.6826
Maximum	7.1655
Sum	5.6725
Count	40
Confidence Level (95.0 %)	0.7027

Table 20: Statistical evaluation of the company-based (-1, +1) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.2507	0.3388
Variance	2.6024	3.1054
Observations	40	40
df	39	39
F	0.8380	
P(F<=f) one-tail	0.2919	
F Critical one-tail	0.5867	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.2507	0.3388
Variance	2.6024	3.1054
Observations	40	40
Pooled Variance	2.8539	
Hypothesized Mean Difference	0	
df	78	
t Stat	-0.2330	
P(T<=t) one-tail	0.4082	
t Critical one-tail	1.6646	
P(T<=t) two-tail	0.8164	
t Critical two-tail	1.9908	

Descriptive Statistics	
	Difference between after and before
Mean	0.0880
Standard Error	0.3357
Median	-0.0636
Mode	#NV
Standard Deviation	2.1233
Sample Variance	4.5085
Kurtosis	2.6671
Skewness	0.9143
Range	11.5800
Minimum	-4.5436
Maximum	7.0363
Sum	3.5210
Count	40
Confidence Level (95.0 %)	0.6791

Table 21: Statistical evaluation of the company-based (-1, +2) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.4397	0.1302
Variance	3.2155	4.6371
Observations	40	40
df	39	39
F	0.6934	
P(F<=f) one-tail	0.1287	
F Critical one-tail	0.5867	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.4397	0.1302
Variance	3.2155	4.6371
Observations	40	40
Pooled Variance	3.9263	
Hypothesized Mean Difference	0	
df	78	
t Stat	0.6985	
P(T<=t) one-tail	0.2435	
t Critical one-tail	1.6646	
P(T<=t) two-tail	0.4869	
t Critical two-tail	1.9908	

Descriptive Statistics	
	Difference between after and before
Mean	-0.3095
Standard Error	0.4259
Median	-0.0911
Mode	#NV
Standard Deviation	2.6938
Sample Variance	7.2568
Kurtosis	0.2802
Skewness	0.3532
Range	12.0995
Minimum	-5.3120
Maximum	6.7875
Sum	-12.3801
Count	40
Confidence Level (95.0 %)	0.8615

Table 22: Statistical evaluation of the company-based (-1, +5) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.6042	0.3374
Variance	3.3335	3.4589
Observations	40	40
df	39	39
F	0.9637	
P(F<=f) one-tail	0.4544	
F Critical one-tail	0.5867	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.6042	0.3374
Variance	3.3335	3.4589
Observations	40	40
Pooled Variance	3.3962	
Hypothesized Mean Difference	0	
df	78	
t Stat	0.6473	
P(T<=t) one-tail	0.2597	
t Critical one-tail	1.6646	
P(T<=t) two-tail	0.5193	
t Critical two-tail	1.9908	

Descriptive Statistics	
	Difference between after and before
Mean	-0.2668
Standard Error	0.3636
Median	-0.2982
Mode	#NV
Standard Deviation	2.2999
Sample Variance	5.2894
Kurtosis	3.6330
Skewness	1.0464
Range	12.7643
Minimum	-4.6758
Maximum	8.0885
Sum	-10.6701
Count	40
Confidence Level (95.0 %)	0.7355

Table 23: Statistical evaluation of the company-based (-2, +2) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	1.0244	0.3075
Variance	16.5889	6.3871
Observations	40	40
df	39	39
F	2.5973	
P(F<=f) one-tail	0.0018	
F Critical one-tail	1.7045	

t-Test: Two-Sample Assuming Unequal Variances		
	before	*after*
Mean	1.0244	0.3075
Variance	16.5889	6.3871
Observations	40	40
Hypothesized Mean Difference	0	
df	65	
t Stat	0.9459	
P(T<=t) one-tail	0.1739	
t Critical one-tail	1.6686	
P(T<=t) two-tail	0.3477	
t Critical two-tail	1.9971	

Descriptive Statistics	
	Difference between after and before
Mean	-0.7169
Standard Error	0.7207
Median	-0.4105
Mode	#NV
Standard Deviation	4.5580
Sample Variance	20.7749
Kurtosis	10.7204
Skewness	-2.3919
Range	28.1081
Minimum	-21.6231
Maximum	6.4850
Sum	-28.6753
Count	40
Confidence Level (95.0 %)	1.4577

Table 24: Statistical evaluation of the company-based (-5, +5) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0020	-0.0001
Variance	0.0010	0.0010
Observations	718	1431
df	717	1430
F	0.9588	
P(F<=f) one-tail	0.2609	
F Critical one-tail	0.8980	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.0020	-0.0001
Variance	0.0010	0.0010
Observations	718	1431
Pooled Variance	0.0010	
Hypothesized Mean Difference	0	
df	2147	
t Stat	1.4372	
P(T<=t) one-tail	0.0754	
t Critical one-tail	1.6456	
P(T<=t) two-tail	0.1508	
t Critical two-tail	1.9611	

Table 25: Statistical evaluation of the deal-based (-1, +1) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0035	0.0007
Variance	0.0014	0.0013
Observations	718	1431
df	717	1430
F	1.0304	
P(F<=f) one-tail	0.3190	
F Critical one-tail	1.1112	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.0035	0.0007
Variance	0.0014	0.0013
Observations	718	1431
Pooled Variance	0.0013	
Hypothesized Mean Difference	0	
df	2147	
t Stat	1.6847	
P(T<=t) one-tail	0.0461	
t Critical one-tail	1.6456	
P(T<=t) two-tail	0.0922	
t Critical two-tail	1.9611	

Table 26: Statistical evaluation of the deal-based (-1, +2) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0045	0.0010
Variance	0.0024	0.0023
Observations	718	1431
df	717	1430
F	1.0386	
P(F<=f) one-tail	0.2766	
F Critical one-tail	1.1112	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.0045	0.0010
Variance	0.0024	0.0023
Observations	718	1431
Pooled Variance	0.0023	
Hypothesized Mean Difference	0	
df	2147	
t Stat	1.5840	
P(T<=t) one-tail	0.0567	
t Critical one-tail	1.6456	
P(T<=t) two-tail	0.1133	
t Critical two-tail	1.9611	

Table 27: Statistical evaluation of the deal-based (-1, +5) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0047	0.0012
Variance	0.0019	0.0017
Observations	718	1431
df	717	1430
F	1.1198	
P(F<=f) one-tail	0.0387	
F Critical one-tail	1.1112	

t-Test: Two-Sample Assuming Unequal Variances		
	before	*after*
Mean	0.0047	0.0012
Variance	0.0019	0.0017
Observations	718	1431
Hypothesized Mean Difference	0	
df	1366	
t Stat	1.7867	
P(T<=t) one-tail	0.0371	
t Critical one-tail	1.6460	
P(T<=t) two-tail	0.0742	
t Critical two-tail	1.9617	

Table 28: Statistical evaluation of the deal-based (-2, +2) AR measure

F-Test: Two-Sample for Variances		
	before	*after*
Mean	0.0051	0.0020
Variance	0.0037	0.0035
Observations	717	1431
df	716	1430
F	1.0631	
P(F<=f) one-tail	0.1697	
F Critical one-tail	1.1112	

t-Test: Two-Sample Assuming Equal Variances		
	before	*after*
Mean	0.0051	0.0020
Variance	0.0037	0.0035
Observations	717	1431
Pooled Variance	0.0035	
Hypothesized Mean Difference	0	
df	2146	
t Stat	1.1169	
P(T<=t) one-tail	0.1321	
t Critical one-tail	1.6456	
P(T<=t) two-tail	0.2642	
t Critical two-tail	1.9611	

Table 29: Statistical evaluation of the deal-based (-5, +5) AR measure

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VIII. Declaration of originality

"We hereby declare that this thesis and the work reported herein was composed by and originated entirely from us. Information derived from the published and unpublished work of others has been acknowledged in the text and references are given in the bibliography."

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